

# **Fiduciary Performance Audit of the South Carolina Public Employee Benefit Authority**

**Prepared for the South Carolina  
Office of the State Auditor**

**Final Report**



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## Executive Summary

### **Overview**

Funston Advisory Services LLC (FAS) was selected by the South Carolina Office of the State Auditor (OSA) to conduct the 2019 South Carolina Public Employee Benefit Authority (PEBA) fiduciary performance audit. FAS also completed an initial fiduciary performance audit of PEBA in early 2015 under the auspices of the South Carolina State Inspector General. The current fiduciary performance audit began in May 2019. A draft report was submitted for PEBA review and feedback in September, and the final report was submitted in November 2019. The 2019 FAS team was substantially the same as that which conducted the 2015 fiduciary performance audit.

The primary purpose of this audit was to evaluate the progress made in implementing the recommendations resulting from the 2015 fiduciary performance audit of PEBA. The OSA also asked that the review identify any areas of weakness in current operational policies and practices. In addition, recommendations were to be articulated and prioritized according to significance and urgency and, where feasible, would include an analysis of potential costs or benefits associated with implementation.

The FAS project team reviewed documents and conducted interviews with PEBA trustees and staff and with key stakeholders, including retirees, investment advisors, vendors, employers and others. We believe that information used as material to our findings was generally reliable but have not independently investigated the accuracy of information received from third parties. We also relied on the expert opinion of the FAS team based on their experience working with and in public retirement systems and other relevant organizations. Nevertheless, a fiduciary performance audit is separate and distinct from a forensic investigation, a compliance audit or an audit of financial statements. While no audit can provide absolute assurance, we believe this report offers reasonable independent reassurance that appropriately reflects the current state of the matters we reviewed, based on the information made available to us.

### **Background**

As background, PEBA was created by the South Carolina General Assembly on July 1, 2012 as an administrative agency of state government responsible for the administration and management of the state's employee insurance programs and retirement systems. Prior to PEBA's creation, the offices of the South Carolina Retirement Systems and the Employee Insurance Program were incorporated within the Office of the State Budget and Control Board (BCB). At the time of the first fiduciary audit, which began in September 2014, PEBA was early in its third year of its current form. Integration of the two prior organizations was still underway.

Over the course of those first two years, PEBA had had one permanent and two interim Executive Directors leading the organization. The final Board of Trustee position was filled in mid-2013. As a result of lack of a permanent Executive Director, several open leadership positions, and the need to put the new organization on a firm foundation, the Board became heavily involved in day-to-day operations and management decision making.

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### ***Overall Assessment of Progress***

The progress made by PEBA over the past four years in addressing its challenges is very impressive. PEBA has made improvements in almost every aspect of its functioning. The General Assembly, the Board and Staff are to be commended for their collective commitment and their success. The Board is now focused on direction and policy matters and oversees delegated authorities for day-to-day operations. PEBA is operating more effectively in providing low cost, responsive member and employer services. It has become an innovative leader in health insurance and has achieved a level of stability which has, in turn, fostered a culture of continuous improvement. PEBA's stakeholders recognize and applaud the improvements in the organization's performance.

The turnaround at PEBA began with the Board's selection of the current Executive Director in July 2014. The Executive Director had previously served on the PEBA Board and also had a long history with the Retirement System prior to its integration into PEBA. The Executive Director, in turn, recruited a strong management team, many of whom had prior experience with the Retirement System or the Employee Insurance Program. This strengthening of the management team established the foundation for many of the improvements that have occurred over the past four years.

In 2015, although PEBA was functioning adequately, basic member services and pension administration were built upon outdated and hard-to-maintain systems that were not integrated and were in need of replacement. PEBA has been working toward a major new, integrated member services platform, called PEBA:connect, for several years.

The requirements for a new system were developed over the past few years and a Request for Proposal for a commercially available software package as the basis for this new platform was issued in August 2019. Implementation of PEBA:connect will be a major undertaking for PEBA over the next four-to-five years and will require a strong focus by the management team and considerable resources. However, it appears that both the Board and management have a solid grasp of the scope and effort and have established a strong governance approach to manage and oversee the implementation.

### ***Role and Functioning of the Board of Trustees***

As mentioned, in 2015 the Board of Trustees was involved in many of the details of day-to-day PEBA operations. Delegations to the Executive Director were unclear in many areas, and the Board committees were not consistently effective.

The PEBA Board, with the assistance of staff, developed clear delegations of authority to the Executive Director and, over time, focused more on strategic issues and oversight of activities performed by staff and became less involved in operational details. The Board began to meet less frequently and to rely more on the work of its three committees, which is consistent with leading governance practices. Long-standing trustees report that the Board is now doing a better job of prioritizing how it spends its time and is consequently providing better oversight across the entire organization. Performance reporting has significantly improved and remains a focus for further improvement.

Although there has been some trustee turnover over the past few years, partially due to the establishment of new term limits, the Board continues to have very qualified and capable members. The trustees reported that while there is diversity of opinion, there is also mutual respect, and the Board reaches

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consensus on direction after robust debate. Attendance at Board and committee meetings is consistently good.

***Legislative Changes and Impact***

The South Carolina Retirement System Funding and Administration Act of 2017 addressed critical funding challenges facing the retirement system. It also included a number of governance reforms for PEBA that were recommended in the 2015 fiduciary performance audit of PEBA.

Ten recommendations were made to the General Assembly in the 2015 PEBA fiduciary performance audit, of which four were fully adopted, one was partially adopted, and one remains in process. The ten recommendations and their status is shown in the table below:

2015 Recommendation	Status
1. Simplify and clarify the system of fiduciary governance for the Retirement System and insurance programs by reducing the multiple conflicts and overlapping fiduciary authority of the Treasurer and BCB (and its successors) with PEBA.	Adopted
2. Give the PEBA Board of Trustees greater independence for budget and headcount decisions to ensure that they are consistent with the strict fiduciary standards to which it is bound.	Not adopted
3. Transfer investment responsibility for insurance trust fund assets to the Retirement System Investment Commission as the most qualified State entity to provide those services.	In process
4. Transfer approval of Deferred Compensation investment options from the State Treasurer to the PEBA Board of Trustees.	Not adopted
5. Allow PEBA greater flexibility to reduce the number of ORP vendors in order to obtain lower fees and make other improvements without materially affecting program quality.	Not adopted
6. Eliminate the requirement for a Retirement and Pre-Retirement Advisory Panel, in the context of an improved PEBA Board communications and engagement plan that covers a broad range of stakeholder groups.	Not adopted
7. Update the PEBA Board Member appointment process to include four- or five-year staggered terms, subject only to early removal for cause.	Adopted
8. Repeal the statutory requirement that the PEBA Board meet monthly throughout the year.	Adopted
9. Delegate responsibility for setting the investment return assumption to the PEBA Board, based upon the recommendation of the actuary; if this is not achieved, at a minimum, there should be a prescribed periodic review process adopted by the State Legislature.	Partially adopted
10. Eliminate the notarization requirement for a member death by amending the appropriate statutes to delete the requirement for a “duly acknowledged” written notification to PEBA.	Adopted

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The General Assembly is to be commended for its significant contribution through the 2017 Pension Reform legislation. With respect to PEBA, the above reforms, which were signed into law in April 2017, addressed half of the legislative recommendations made in the 2015 fiduciary performance audit report. These improvements have been a major contributor to the ability of PEBA to continue to make strides in its governance and performance.

The fragmentation of fiduciary responsibilities has been significantly reduced, including removal of the State Fiscal Accountability Authority (SFAA) as a retirement system fiduciary. The longer PEBA trustee terms will ensure continuity, while removing the monthly meeting requirement has enabled the Board to focus more strategically and improve meeting preparation. The General Assembly will now receive a recommendation every four years from PEBA, in consultation with the Retirement System Investment Commission (RSIC) and the system actuary, for the assumed annual rate of return. Finally, the removal of the requirement for a notarized member beneficiary designation has helped PEBA provide a higher level of service to member families.

The new statute also designated the PEBA Board as the custodian of the trust's assets and made the RSIC responsible for the custodial banking arrangement. Since the new law took effect, the RSIC signed a new custody agreement with Bank of New York Mellon (BNYM) in July 2017.

Based upon our current assessment of PEBA, these legislative changes have significantly contributed to the improvements PEBA has been able to implement since 2015. Of the remaining recommendations that were not adopted, we reiterate that each of the recommendations should be adopted as they remain relevant to the continued improvement of PEBA's governance.

### ***Organizational Development***

As noted, the PEBA organization has been significantly strengthened by the addition of a series of experienced executives who have joined, or in many cases returned to PEBA since 2015. The leadership team has been stable. This, in turn, has stabilized the entire organization and created a culture of cooperation and continuous improvement. A key consideration for the PEBA Board and the leadership team, however, is the high proportion of the leadership team who are currently, or soon will be, eligible for retirement. This topic is a top priority for both the Board and the Executive Director and is getting appropriate attention.

### ***Operational Performance Metrics***

More recently, PEBA has made progress in developing more effective operational performance metrics and reporting. There is increased emphasis on improving performance through ongoing monitoring and reporting; the Board receives quarterly updates with summaries and trend data. The next step in this development is to link operational performance metrics to key risk indicators and integrate the enterprise risk program with the performance management program. Once this is complete PEBA should have a leading practice performance and risk management program.

### ***Accountability***

One opportunity for improvement is to better align the organizational structure to improve accountability. Typically, in peer public retirement systems, there are clear leaders of business lines, programs, and support functions. Although PEBA is performing very well, and there are no significant leadership issues,



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the lines of accountability are not clear. All the trustees look to the Executive Director (ED) as the overall leader, but the delegations from the ED appear to be unclear. For example, when we asked trustees who is responsible for the retirement program, responses included the CFO, the Chief Operating Officer, don't know, or not a specific person, and responses regarding the insurance program included the Director of Healthcare Policy, the Chief Operating Officer, don't know, or not a specific person.

The role of the Chief Financial Officer (CFO) typically includes financial planning, management of financial risks, record-keeping, and financial reporting. Increasingly, the role also focuses on providing support to strategy setting and operational decision making through financial analysis.

In some organizations, the CFO will have responsibility for certain support functions such as information technology, human resources or procurement. However, the CFO generally does not have responsibility for lines of business for which the CFO is also responsible for preparing and certifying the financial reports.

Currently in the PEBA organization, the CFO has responsibility for several retirement operational areas, including enrollment, benefit payments, and employer reporting. On the insurance side, the CFO has responsibility for member and retiree enrollment and also employer audits. Finally, the Defined Contribution plans are also the responsibility of the CFO.

As the PEBA organization evolves, improvements should be considered as part of a new target organizational design, perhaps to be implemented as the new PEBA:connect system provides opportunities to better integrate support functions and also consider redeployment of PEBA staff.

### ***Budgeting***

Another area where PEBA could strengthen its management and controls is to develop a robust budgeting process. Currently, there does not appear to be a rigorous budget setting and monitoring process at the departmental level. Spending is forecast by department, but there are not initial budgets created at the department level of the organization to which actual spending can be compared.

### ***Opportunities for Further Improvement***

While there has been significant progress, there will always be opportunities for improvement. This report includes 55 detailed new recommendations for improvement identified by the FAS team during this review to help PEBA in the development and adoption of leading practices. These recommendations are intended to support PEBA's evolution to the next level of capability maturity. At a summary level, the major recommendations for the General Assembly the Board of Trustees, and PEBA staff are:

#### ***General Assembly***

- Give the PEBA Board of Trustees greater authority for budget and headcount decisions.
- Allow PEBA greater flexibility to reduce the number of ORP vendors.
- Revise the PEBA trustee qualifications to allow broader areas of relevant experience that expands the pool of candidates.

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- Transfer final approval authority for Deferred Compensation investment options from the State Treasurer to the PEBA Board of Trustees.
- Eliminate the requirement for a Retirement and Pre-Retirement Advisory Panel.

### *Board of Trustees*

- PEBA and participant groups should identify Trustee characteristics and skill sets needed on the Board and informally transmit any suggestions to appointing authorities.
- Board continuing education should be linked to training needs identified during the Board self-assessment process.
- Following attendance at an external educational session, Board members should be required to fill out an education evaluation form and share their feedback with the entire PEBA Board.
- The PEBA Board should improve its Decision Intelligence framework approach (described later in 1.9.1) to help organize meeting agendas, align executive reports and support, and link continuing education to future key decisions.
- The PEBA Board should create Board and committee officer position descriptions, formulate a Board disciplinary policy and develop a formal vendor referral policy.
- The PEBA Board should determine if and how the website function for fielding questions from stakeholders could be more effective.
- The Board should consider a policy that provides for public comments at Board meetings, with appropriate provisions to keep commentary focused on relevant issues and an appropriate use of time.
- The PEBA Board and its Committees should continue to refine their focus on key performance indicators (KPIs) and approve thresholds for acceptable, caution or unacceptable differences between actual and expected performance for all KPIs.
- The Board should require that the presentation of information for all major decisions include a risk assessment, including the risk of inaction.
- Internal Audit and the FAAC should make concrete steps toward compliance with IIA Standards that require an independent quality review every five years.
- PEBA and RSIC should come to an agreement to utilize a consistent set of actuarial assumptions under the guidance of the retirement system actuarial consultant.

### *PEBA Staff*

- Improve support for each Committee by identifying policy implications of KPIs (short, intermediate, long-term) and develop and maintain policy briefs affecting KPIs (issues/context, options available, pros and cons, dissenting opinions, recommendations).
- Continue to focus on KPIs and KPIs at risk to ensure that performance and risk remain inseparable and visibility and accountability are clear.

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- Use/refine use of board portal to develop and maintain Board information (dynamic, linked and evergreen).
- Responsibilities for enterprise-wide risk assessment should be added to the Risk Management Policy.
- PEBA should assign ownership of risk(s) to the senior staff most directly responsible for performance .
- Combine all employer compliance auditing under the oversight of the Internal Audit department.
- Consider providing additional staff to the Procurement Department to ensure there is adequate capacity to effectively support upcoming major contracts.
- Assess whether or not the improvements in S530, signed into law in May 2019, are sufficient to streamline purchasing processes or if PEBA should request relief from state requirements through legislation.
- As the PEBA organization evolves, align all retirement-related operations under a leader of retirement, and similarly for insurance, with shared support functions reporting to the COO.
- Acquire and implement a personnel performance management system linked to PEBA's strategic and business plans and budgets.
- HR should have the responsibility to map critical knowledge, identify key staff who possess that knowledge, and implement department-by-department plans to build cross-training and develop bench strength; each department should have a documented process.
- Expedite the procurement process for PEBA:connect to facilitate more operational consolidation and efficiencies and improved member service levels.
- Ensure there is adequate employer input during the design stages of PEBA:connect that includes both large and small employers to cover the range of requirements they have.
- Once the final system vendors are under contract, develop a formal communications plan that extends over the development cycle and includes regular meetings of the various third-parties and the management team and tracks the timeline of deliverables and milestones.
- The CFO should lead development of a new PEBA budgeting process that is linked to the business plan, built up by each department and becomes the basis for departmental reporting of actual versus budgeted spending.
- PEBA Communications Department should develop a more proactive process for obtaining member feedback.
- Include a formal plan for communicating with the public in the Strategic Communications Plan and take advantage of improved relationships with employee and employer associations to author editorial or information pieces for association newsletters.

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- Employer Services should consider instituting regular employer surveys to obtain broader and more systematic input from employers.
- Continue to develop and refine performance measures, monitor trends over time, and develop links between customer satisfaction reporting and performance monitoring.
- Continue efforts to collect more email addresses from members to enable better digital communications and consider whether text communication channels could be an improvement for those members who do not use email.
- Set the phone system to allow a caller to leave a message after hours and adopt a process for following up on messages when the contact center reopens.
- Assess how best to improve contact center performance since there is now a more up-to-date technology platform; for example through increased staffing, projections of call volumes, or increased training.
- Ensure there is effective staff succession planning for the health care program.
- Ensure that future phases of the Business Continuity Plan incorporate the administrative and support areas of PEBA's operations (e.g., legal, audit, human resources) to ensure against data loss and to provide timely recovery.

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## Assessment and Findings

In conducting this fiduciary performance audit, the FAS team reviewed the recommendations from the 2015 fiduciary performance audit and the background and context for each recommendation. Through document reviews, interviews (both internal and external), and follow-up conversations, we developed our assessment of PEBA's progress toward implementing each recommendation. As indicated in the summary table below, some were fully implemented, others substantially implemented or still in process, and a few were not implemented.

Of the seven recommendations that are still considered "in-process", five are related to the PEBA:connect project that is underway and will require a number of years to complete implementation.

In general, the recommendations from the 2015 Fiduciary Performance Audit have been addressed thoughtfully and effectively, and the efforts have contributed substantially to the major improvements in performance across the PEBA organization.

<b>Status Responsibility</b>	<b>Implemented</b>	<b>Substantially Implemented</b>	<b>In-Process</b>	<b>Not Implemented</b>	<b>Total 2015 Recommendations</b>
<b>PEBA Staff</b>	60	10	6	1	77
<b>PEBA Board</b>	10	4	0	2	16
<b>General Assembly</b>	5	1	1	5	12
<b>Total</b>	75	15	7	8	105
<b>% Implementation</b>	71%	14%	7%	8%	

In this review, we also identified opportunities for further improvement based upon leading practices at peer funds and the experience of our team members. The remainder of this report is structured to reflect the recommendations made in the 2015 fiduciary performance audit. For each recommendation, we describe the background, our assessment of implementation progress, and opportunities for further improvement.

## 1. Governance

**1.1: *The General Assembly should simplify and clarify the system of fiduciary governance for the Retirement System and insurance programs by reducing the multiple conflicts and overlapping fiduciary authority of the Treasurer and BCB (and its successors) with PEBA. Appendix A also describes options for consideration in addressing this Recommendation from the Funston Fiduciary Audit Report on RSIC, which covered some of the same issues.***

### 2015 Background:

In addition to PEBA, there were at least eight entities that exercised fiduciary powers over the retirement or insurance programs at the time of the 2015 FAS performance audit. This structure was uniquely complex amongst public pension funds. There were multiple overlapping and circular allocations of authority for fiduciary decisions creating potential for confusion and conflict. These governance arrangements encouraged conflicts between fiduciaries, diluted accountability, and fostered sub-optimal decision-making, even when all parties were acting in good faith. The confusing fiduciary governance structure also exposed PEBA to potentially extreme variations over time in interpretation of ambiguous powers that were held by various co-fiduciary entities.

### Assessment of implementation progress: *Implemented*

This recommendation from the 2015 audit was addressed in Retirement System reform legislation enacted by the General Assembly in 2017. Act 13 of 2017 amended Section 9-1-1310(A) to provide that the PEBA Board and the Retirement System Investment Commission (RSIC) are now the co-trustees for the Retirement System. The Act also repealed the co-trustee designation of the State Fiscal Accountability Authority (successor to the Budget and Control Board) and clarified that any reference in law to the trusteeship of the assets of the Retirement System must be construed as a reference to the PEBA and RSIC co-trusteeship. In addition, custodianship for the Retirement System assets was transferred from the State Treasurer to PEBA, and RSIC was given sole authority to select the custodial bank, with PEBA being designated by statute as a third-party beneficiary. These legislative changes were a major accomplishment which has helped to put the Retirement System on a more stable governance foundation going forward.

### Opportunities for further improvement:

No recommendations at this time.

**1.2: *The General Assembly should give the PEBA Board of Trustees greater independence for budget and headcount decisions to ensure that they are consistent with the strict fiduciary standards to which it is bound.***

### 2015 Background:

In 2015, PEBA was thinly staffed compared to its peers based upon a CEM benchmarking study, as well as our own peer benchmark survey. While PEBA was performing adequately, it was operating with systems that were becoming rapidly outdated, and many of its most experienced staff were nearing retirement.

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We were concerned that PEBA's limited operating budget was affecting its ability to provide a level of service comparable to its peers. We concluded that it was unlikely PEBA would be able to meet coming challenges and the changing program standards of other public and private funds within existing budget and staffing constraints, and that over time, the risk of errors, degrading levels of service and increasing exposure to fiduciary liability would inevitably rise if the situation was not resolved.

The General Assembly's control over PEBA's budget and headcount are critical powers that affect PEBA's ability to perform its responsibilities. Unlike other State entities, PEBA has fiduciary obligations to discharge its duties with the care, skill, and caution exercised by similar funds and may "incur only costs that are appropriate and reasonable." These fiduciary standards set legally binding standards of conduct in management of the retirement and insurance programs which are more stringent than those that apply to other public entities. Half of the peers in our benchmark survey reported that they had more budget flexibility than PEBA. The trend is toward more delegation of independent budget and staffing authority amongst peer public pension funds.

### Assessment of implementation progress: *Not implemented*

The General Assembly did not grant budget and headcount authority to the PEBA Board of Trustees. However, since the 2015 audit, PEBA has filled a number of previously vacant positions. Current audit interviewees consistently reported that PEBA's budget has been adequate and that PEBA now has reached prudent staffing levels. Whether this will continue to be the case if staffing needs increase and/or budget levels approved by the General Assembly decline is uncertain. Failure to provide adequate resources for PEBA to effectively fulfill its responsibilities could cause a breach of PEBA's fiduciary obligations and expose employers to resulting damages incurred by System participants.

It is also worth noting that CEM's 2018 benchmarking study concluded that PEBA front office staffing levels per 10,000 fund members are still 28 percent below the peer average. In addition, CEM found that, while PEBA's service score had improved since 2015, it remains slightly below the peer average. Whether these CEM findings merit consideration of further staffing increases to achieve additional service improvements is an issue that could be considered as part of PEBA's budgeting process. (See also section 3.6.2 of this Report, which discusses opportunities for improvement of that process.)

We believe that the trend among peers will continue to move toward greater budget and headcount delegation to public pension fund fiduciaries, with appropriate reporting and oversight, in order to better align trustees' authority with their ability to fulfill their fiduciary responsibilities.<sup>1</sup> PEBA should monitor this trend and continue to educate its oversight entities about changes in peer practices, PEBA's budget and staffing needs and the independent fiduciary obligations it owes to System participants.

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<sup>1</sup> Comments to §5 of the Uniform Management of Public Employee Retirement Systems Act, after which PEBA's fiduciary duties in §9-4-10(K) were patterned, explains: "Trustees are different from other state actors because they are subject to an extensive and stringent set of fiduciary obligations to retirement system participants and beneficiaries. These obligations both require and justify some level of trustee independence. Independence is required because it permits trustees to perform their duties in the face of pressure from others who may not be subject to such obligations. In the absence of independence, trustees may be forced to decide between fulfilling their fiduciary obligations to participants and beneficiaries or complying with the directions of others who are responding to a more wide-ranging (and possibly conflicting) set of interests."

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Opportunities for further improvement:

**Recommendation 1.2.1: The General Assembly should give the PEBA Board of Trustees greater authority for budget and headcount decisions, subject to appropriate reporting and oversight, in order to ensure that PEBA's authority is consistent with peers and allows it to meet the strict fiduciary standards to which it is bound.**

***1.3.1: The General Assembly should transfer investment responsibility for insurance trust fund assets to the Retirement System Investment Commission as the most qualified State entity to provide those services.***

2015 Background:

There were several PEBA insurance trust fund governance provisions that seemed to be grounded in historical practices that pre-date the creation of PEBA and RSIC and are out of date. For example, although the RSIC has a significantly larger investment staff and level of expertise, the State Treasurer still invests insurance program trust fund assets. This structure added complexity, as well as potential for conflicts and missed opportunities. The General Assembly recognized this and has enacted statutes that provide for transfer of these investment functions from the State Treasurer to RSIC upon voter ratification of an amendment to the South Carolina Constitution that would expand investment options for those funds. However, the constitutional amendment has not yet been ratified by South Carolina voters.

In addition, the FAS 2015 audit benchmark survey found that the prevailing practice amongst PEBA peers is to not vest retirement or insurance investment management functions with the Treasurer. Only one of the six peer funds in that survey reported that the State Treasurer managed investments for either their retirement or insurance plans. In our experience, this is not typical when the insurance programs are managed by a fiduciary board.

Assessment of implementation progress: *In process*

Delay in ratification of the Constitutional Amendment continues to leave insurance trust fund assets exposed to risks associated with not being assigned to the State entity with the most investment expertise.

Opportunities for further improvement:

No recommendations at this time.

***1.3.2: The General Assembly should transfer final approval authority for Deferred Compensation investment options from the State Treasurer to the PEBA Board of Trustees.***

2015 Background:

The statutory placement of approval authority for Deferred Compensation investment management options outside of PEBA, the agency that administers the program, introduces the potential for inconsistency and conflicts. PEBA already works directly with skilled advisors through a diligent process for selection and monitoring of investment Deferred Compensation investment option vendors. Interjection of the State Treasurer as an additional approval authority in the process is unlikely to offer



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any added investment expertise benefits and could unnecessarily introduce a conflicting set of political interests into the process.

The FAS 2015 audit benchmark survey found that the prevailing practice among PEBA peers is to not vest retirement investment management approval functions with the Treasurer. Only one of the six peer funds in our survey reported that the State Treasurer has investment authority for either retirement or insurance plans. In our experience, a fiduciary board typically has responsibility for deferred compensation plans.

Assessment of implementation progress: *Not implemented*

The complexity of the governance of the Deferred Compensation Program also pre-dates the creation of PEBA. It leaves potentially conflicting fiduciary approval authorities in place with the possibility of program disruption.

Despite this concern, we understand from current audit interviews that the existing process has worked smoothly since the 2015 FAS Report was issued. Accordingly, this change does not appear to be a high priority at this point. However, the peer practices cited above still demonstrate that consistency in governance authority over fiduciary investment functions is highly desirable. While near term action might not be feasible, we believe this change should remain a PEBA governance recommendation.

Opportunities for further improvement:

**Recommendation 1.3.2: The General Assembly should transfer final authority for approval of Deferred Compensation investment options from the State Treasurer to the PEBA Board of Trustees.**

**1.4: *The General Assembly should allow PEBA greater flexibility to reduce the number of ORP vendors in order to obtain lower fees and make other improvements without materially affecting program quality.***

2015 Background:

The statutory requirement that PEBA select at least four vendors for the Optional Retirement Plan (ORP) is another provision that predates the creation of PEBA and has become out of date. It originally provided additional choices to participants without significant cost ramifications. However, that was when the ORP was a small fund. Significant improvements have been made to the ORP since PEBA assumed responsibility for it, and further program enhancements are contemplated. In addition, ORP assets have grown substantially, and that now offers potential for new service upgrades and cost reductions.

Assessment of implementation progress: *Not implemented*

This statutory requirement that at least four ORP vendors be selected remains in place and is preventing PEBA from consolidating assets with fewer vendors in order to gain leverage for negotiating improved program services and reduced fees. This unnecessarily imposes added costs on program participants.

We still believe that pursuit of reduced participant costs and program service improvements should be a legislative priority. This should remain on the future agenda for PEBA and the General Assembly.

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Opportunities for further improvement:

**Recommendation 1.4:** Unless addressed through broader defined contribution program changes, the General Assembly should allow PEBA greater flexibility to reduce the number of ORP vendors in order to obtain lower fees and make other improvements without materially affecting program quality.

**1.5:** *The General Assembly should eliminate the requirement for a Retirement and Pre-Retirement Advisory Panel, in the context of an improved PEBA Board communications and engagement plan that covers a broad range of stakeholder groups. See also Recommendation 4.9.*

2015 Background:

The Retirement and Pre-Retirement Advisory Panel was created before the establishment of PEBA, when there was no other entity representing participants. However, the PEBA Board now has members who are representatives of the various Retirement System constituent groups, giving them direct representation in oversight of the trust funds. This 2015 audit FAS recommendation contemplated that the General Assembly consider whether the original purpose for the Retirement and Pre-Retirement Advisory Panel is now being met by PEBA, especially in consideration of PEBA's enhanced stakeholder communication plan that provides other avenues for input from participants.

Assessment of implementation progress: **Not implemented**

The statutory mandate for a Retirement and Pre-Retirement Advisory Panel has not been eliminated. It is not clear that the Retirement and Pre-Retirement Panel is currently performing a meaningful function that is not already fulfilled by the PEBA Board. The PEBA Board's representation of constituent groups and PEBA's new stakeholder communications and engagement plan appear to cover the roles previously played by the Retirement and Pre-Retirement Panel. We also note that the General Assembly's sunset reviews of government entities could provide a mechanism for consideration of the ongoing need for the Retirement and Pre-Retirement Panel.

Opportunities for further improvement:

**Recommendation 1.5:** The General Assembly should eliminate the requirement for a Retirement and Pre-Retirement Advisory Panel, in the context of PEBA's creation and an improved PEBA Board communications and engagement plan that covers a broad range of stakeholder groups.

**1.6:** *The General Assembly should update the PEBA Board Member appointment process to be more consistent with peer practices. This should include consideration of four- or five-year staggered terms, subject only to early removal for cause. It might also include consideration of changes in the appointment process to improve engagement with participant groups and the PEBA Board by establishing a process for them to submit qualified candidates for consideration by the appointing authorities.*

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### 2015 Background:

The FAS 2015 audit review found that the PEBA Board Member appointment process was inconsistent with prevailing peer practices and with the appointment processes used for boards at similar South Carolina State entities. PEBA Board Member terms were much shorter and were not staggered. In addition, there was no “for cause only” protection from removal at any time by appointing authorities. While appointment categories provided for representatives from participant groups, there was no provision for involvement of participant organizations in sourcing candidates. The 2015 recommendations sought changes to bring the PEBA Board Member appointment process more in line with current peer practices.

### Assessment of implementation progress: *Implemented*

These recommendations were substantially addressed by the General Assembly in the Retirement System Reform Legislation, Act 13 of 2017. Board member terms were extended to four years and are now staggered. Board Members may now only be removed by the Governor for malfeasance, misfeasance, incompetency, absenteeism, conflicts of interest, misconduct, persistent neglect of duty in office, or incapacity. While the recommendation regarding greater interaction with participant groups in sourcing Board Member candidates for appointment does not appear to have been addressed by legislation, PEBA and participant groups have the ability to recommend or initiate greater contact with appointing authorities without any legislative mandate.

During interviews for this audit, we learned that some of this interaction is already occurring. In addition, interviewees stressed that any efforts to better inform the appointment process might best be focused on needed PEBA Board skill sets, rather than specific individuals, and communicated to appointing authorities informally. It is also worth noting that some peer boards identify desired Board skill sets or trustee characteristics as part of the board evaluation or trustee succession planning processes.<sup>2</sup>

While the PEBA Board appears to be functioning well, we identified concerns that current statutory qualifications for the non-representative trustees is more narrowly drawn than for many peer retirement systems. This could unnecessarily eliminate some highly qualified individuals from being considered for appointment.

Under Section 9-4-10 of the SC Code of Laws, non-representative PEBA Board appointees must have at least one of the following:

- a) “at least twelve years of professional experience in the financial management of pensions or insurance plans;
- b) at least twelve years academic experience and holds a bachelor's or higher degree from a college or university as classified by the Carnegie Foundation;
- c) at least twelve years of professional experience as a certified public accountant with financial management, pension, or insurance audit expertise;

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<sup>2</sup> For example, the California Public Employees Retirement System Board Governance Policy identifies the following constellation of desired competencies for Board Members: Health benefits; retirement benefits; actuarial principles; investment matters; financial, budgeting, audit and legal expertise; economic principles; risk management; strategic planning; healthcare systems; private defined contribution marketplace knowledge.

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- d) at least twelve years as a Certified Financial Planner credentialed by the Certified Financial Planner Board of Standards; or
- e) at least twelve years membership in the South Carolina Bar and extensive experience in one or more of the following areas of law:
  - i. taxation;
  - ii. insurance;
  - iii. health care;
  - iv. securities;
  - v. corporate;
  - vi. finance; or
  - vii. the Employment Retirement Income Security Act (ERISA)."

For comparison, the qualification requirement for appointed trustees at the Minnesota State Retirement System is "knowledgeable in pension matters." Non-representative board appointees at the Nebraska Public Employees Retirement Board must have "at least ten years of experience in the management of a public or private organization or have at least five years of experience in the field of actuarial analysis or the administration of an employee benefit plan." Non-representative trustees of the Oregon PERS Board must have "experience in business management, pension management, or investing." In North Carolina, there are no defined requirements for the Board of Trustees of the Teachers' and State Employees' Retirement System, and qualification requirements for appointment to the Board of Trustees of the State Health Plan for Teachers and State Employees includes "1) Individuals with expertise in actuarial science or health economics; 2) Individuals with expertise in health benefits and administration; 3) Individuals with expertise in health law and policy; or 4) Physicians who are licensed to practice medicine in this State."

In order to broaden the pool of qualified potential candidates that could be considered for appointment to the PEBA Board, the statutory qualifications could be expanded to recognize other types of relevant experience. For example, if size of the candidate pool is a concern, advanced experience in actuarial, health economics, health benefits, investment management or similar experience might be included in the statutory list.

**Opportunities for further improvement:**

**Recommendation 1.6.1: PEBA and participant groups should consider identifying Trustee characteristics and skill sets needed on the Board and informally transmit any suggestions to appointing authorities.**

**Recommendation 1.6.2: The General Assembly should consider revising the PEBA trustee qualifications to allow broader areas of relevant experience that expands the pool of candidates.**

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**1.7: *The statutory requirement that the PEBA Board meet monthly throughout the year should be repealed.***

2015 Background:

The 2015 audit found that the PEBA Board was required to meet significantly more often than its peers. This also appeared to be contributing to counterproductive micromanagement by the Board and impeding efforts to move toward a more strategic governance approach.

Assessment of implementation progress: **Implemented**

This recommendation was addressed by the General Assembly in the Retirement System Reform Legislation, Act 13 of 2017, which allows the Board to meet quarterly. This change has been uniformly applauded by PEBA staff and Board members as encouraging a more strategic Board focus and allowing more time for meeting preparations.

Opportunities for further improvement:

No recommendations at this time.

**1.8: *Training of new Trustees and periodic Board fiduciary education updates should include expanded treatment of the duties of loyalty and impartiality, the different roles of Trustees and plan sponsors and the distinct functions of the Board and staff.***

2015 Background:

Several areas of misunderstanding about Board roles and fiduciary duties became evident during the 2015 review interviews. For example, there appeared to be confusion about whether Trustees have a fiduciary duty to taxpayers and appointing authorities, as opposed to a fiduciary duty of loyalty which runs solely to fund participants and beneficiaries. There seemed to also be misconceptions about whether Trustees should only represent the interests of the group from which they were appointed, instead of recognizing the fiduciary duty of impartiality, which requires Trustees to look after the interests of all fund participants and beneficiaries. In addition, the two-year delay in appointment of a permanent PEBA Executive Director upon creation of the agency encouraged the Board to drift into handling management and operational details, which was no longer necessary or appropriate after a permanent Executive Director was in place.

Assessment of implementation progress: **Implemented**

Trustees reported during interviews that both onboarding and continuing fiduciary duty education have been significantly improved. The Executive Director, General Counsel and staff ensure that fiduciary training is periodically refreshed and includes relevant examples of situations Trustees could encounter. The previously-noted concerns appear to have been addressed.

However, some of the current audit interviews surfaced a related concern. While onboarding is appropriately comprehensive, the volume of material to be absorbed by new Trustees is so voluminous that it is like “drinking from a fire hose.” The learning process could be enhanced by extending it over more time with repetition of key concepts. Although this already occurs to some extent, through different presentations, presenters and formats, there appears to be some appetite for continued improvement.

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Coordination of Board meeting training with external classes and web-based educational opportunities could also enhance skills development, especially for new Trustees. Some interviewees also expressed interest in greater coordination between education needs identified during the Board self-evaluation process and development of ongoing training plans.

### Opportunities for further improvement:

While the onboarding and fiduciary training processes have greatly improved and addressed the issues identified in the 2015 review, there is an opportunity to improve the onboarding education process through repetition of key points over time through different sources, in order to help new Trustees absorb the volume of information they must learn.

Also, it appears that there might be additional opportunities to plan training sessions that address learning needs identified during the Board's self-assessment process. While the Board's Bylaws have already been amended to provide for this, greater attention to implementation may be needed.

**Recommendation 1.8.1: Absorption of the large volume of information that must be learned by Trustees might be aided by repetition of key points over time in various educational formats, especially for new Trustees.**

**Recommendation 1.8.2: Greater attention should be devoted to implementation of the new Board Bylaws provision on training needs that are identified during the Board self-assessment process being addressed through additional educational offerings.**

***1.9.1: The Board should engage in a deliberative process to develop a conceptual framework governing the delegation of authority and reservation of powers to the Board. Given the inherent conflicts between Trustees and staff in this exercise, consideration should be given to engaging an independent expert to assist with the process.***

### 2015 Background:

The 2015 audit identified confusion about the distinctly separate functions of the board as a policy and oversight body and the staff as having operational responsibilities to implement the board's policies. Trustees and staff both acknowledged that the dividing line between these roles moved significantly toward board exercise of management duties during the years without a permanent Executive Director. FAS recommended undertaking a deliberative process to identify what decision authority should be retained by the Board in order to help the Board establish priorities, identify goals and refocus away from management toward strategic matters.

### Assessment of implementation progress: **Implemented**

The Board adopted a resolution clarifying powers delegated to the Executive Director in 2015. Interviews during the current audit identified a clear understanding of the difference between roles of the Board and staff and no lingering concerns about Board management.

The 2015 delegation is consistent with peer delegation policies. However, leading practice is to use a decision-making framework that fosters a clearer understanding of the Board's roles and responsibilities

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based upon the functions performed by the system and the powers reserved for the Board (see example below).

### Powers Reserved exclusively for the PEBA Board

PEBA performs three vital functions:

- 1 Deliver Pension Benefits
- 2 Deliver Health and Insurance Benefits
- 3 Administer the System

The PEBA Board fulfills its fiduciary duties by exercising four powers reserved exclusively for the Board:

1. Set strategic direction and policy
2. Approve key decisions
3. Conduct selected activities
4. Delegate and oversee execution

An example is shown below:

Vital Retirement System Functions	Powers Reserved Examples			
	Set Strategic Direction & Policy	Approve Key Decisions	Conduct Selected Activities	Delegate / Oversee Execution
1 Deliver Pension Benefits		Approve policies that affect retirement benefit administration.	Adjudicate appeals	Oversee member and employer service delivery quality and efficiency
2 Deliver Health and Other Insurance Benefits	Set health care strategy and leadership in health care.	Approve positions on legislation affecting health benefits.		Oversee health care strategy and leadership in health care
3 Administer the System	Set overall organization strategy, oversee strategic planning process	Approve / recommend budget	Select, evaluate, compensate the ED  Conduct periodic board self-assessment of effectiveness	Oversee compliance

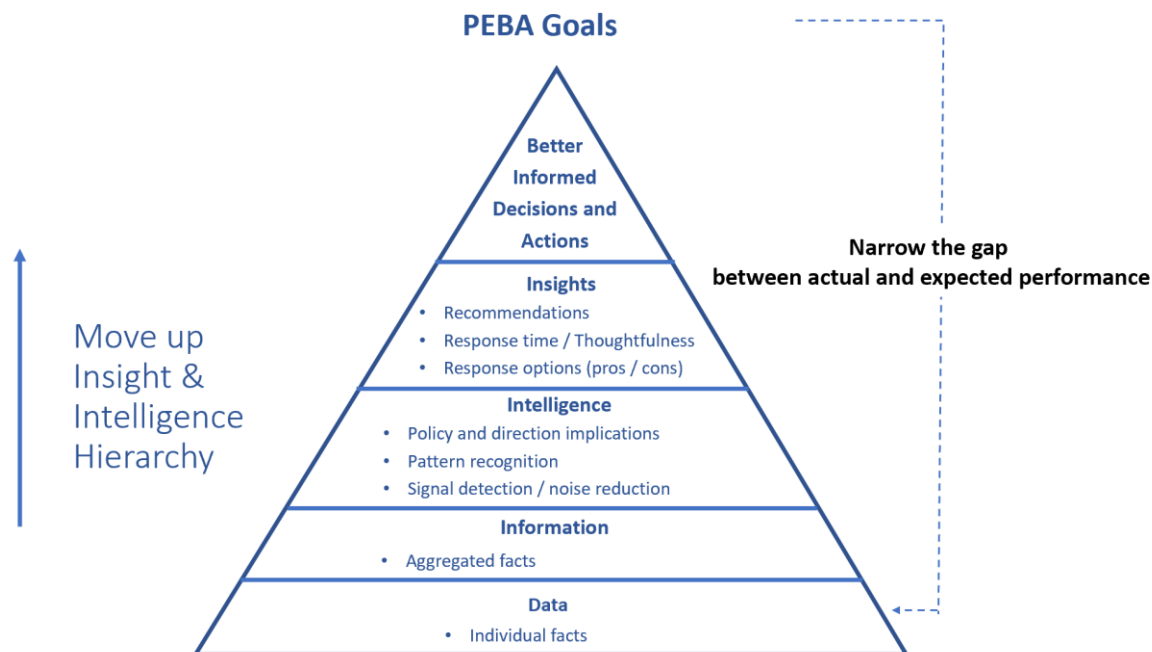
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Committees typically make recommendations to the full Board regarding the first three powers (Set, Approve, Conduct) and oversee execution within their charters.



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## Decision Intelligence Hierarchy



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PEBA already has many elements of Decision Intelligence in place. Plan Summaries (dashboards) are provided to each of the Board Committees:

- Retirement Policy Committee
- Finance, Audit, Administration and Compliance Committee
- Health Care Policy Committee

The Plan Summaries are excellent examples of how to distill large volumes of data and information into insightful presentations that highlight the vital signs of PEBA's performance. Many of the summaries provide comparisons between actual and expected performance with succinct accompanying explanations. These Summaries also serve as useful and practical indicators of risk, i.e., an unacceptable difference between actual and expected performance. These can be considered leading practice.

### Opportunities for further improvement:

#### **Recommendation 1.9.1: To further improve its Decision Intelligence, PEBA should:**

- **Organize all Board and Committee agendas according to Powers Reserved**
  - Set strategic direction and policy
  - Approve certain key decisions
  - Conduct selected activities
  - Oversee delegated authority
- **Align all executive reports and support directly with the Powers Reserved exclusively for the Board and its Committees**
- **Link continuing Board member education to the future key decisions required and the ability to effectively oversee delegated authority.**



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**1.9.2: The Board should continue to prioritize and spend more time on strategic planning, identification of program goals, desired outcomes, implementation strategies, targets and measures to successfully meet PEBA's challenges.**

**2015 Background:**

As a new governing body, in 2014 the Board had not yet fully developed mature governance practices. Due to external factors, there had been a two-year deferral in appointment of a permanent Executive Director. The Board acknowledged drifting into management and operational details during this period of transitional executive leadership.

The 2015 review identified a transition from basic organizational tasks during the phase where the focus was on development of a new organization to a more mature phase with a focus on strategic planning. As a permanent Executive Director was finally in place, it was the appropriate time to move forward. Accordingly, it was important that PEBA's nascent strategic planning and risk identification process focus on both near- and long-term (at least three to five years) time frames.

PEBA's annual plan, which primarily addressed goals and operational priorities, needed to be supplemented with a more strategic three- to five-year plan. Longer-term planning was needed to both identify and prepare for coming challenges (such as staff turnover, aging technologies, demographic changes, evolving best practices) and to prioritize completion of PEBA's near-term program and service integration goals (such as fully combining similar program functions and consistently delivering competitive retirement and insurance program services).

**Assessment of implementation progress: *Implemented***

PEBA staff have developed a three-year strategic plan which is updated annually and shared with the Board at their off-site retreat. For each strategic objective, strategic goals, actions and metrics are identified. During the course of the year, implementation progress and performance are monitored and reported to the Board at least once annually. Trustees report that they are actively engaged in strategic discussions with staff.

**Opportunities for further improvement:**

No recommendations at this time.

**1.9.3: The strategic planning process should give particular consideration to risk identification, compliance issues and staff development, over both short- and long-term (three to five years) time horizons.**

**2015 Background:** As mentioned in 1.9.2, PEBA's existing annual planning process addressed goals and operational priorities, but did not include a focus on risks. There was not a mature Enterprise Risk Management (ERM) program. Accordingly, it was important that PEBA's new strategic planning focus on both near- and long-term (at least three to five years out) time frames and include an effective risk identification process.

**Assessment of implementation progress: *Implemented***

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In the most recent PEBA strategic plan for 2019-2021, one of the six goals is, “Responsibly manage risk to the organization.” The strategies articulated to address this goal include implementing an enterprise risk management (ERM) program and ensuring information technology resources are utilized to implement continuing security initiatives.

Although PEBA has taken steps to build a risk intelligent culture by launching an ERM program, it is in the early stages of establishing the program. In addition, the other five strategic goals and related strategies do not explicitly address key risks or include key risk metrics. When these metrics are developed, they should relate directly to identifying and managing differences between expected and actual performance regardless of cause.

Another of the six strategic goals is, “Maintain a workforce and work environment conducive to achievement of agency goals and objectives.” This goal has associated strategies that seek to maintain a consistent, viable talent pool, evaluate and monitor staffing needs, and provide staff training and development. Multiple activities in support of these strategies have been implemented.

The original recommendation suggested considering a time horizon of three- to five-years. The current strategic plan is a three-year plan.

### Opportunities for further improvement:

No recommendations at this time.

#### **1.10: The Board should consider further improving its Bylaws and Committee Charters by:**

- ***Formalizing the process for the development of meeting agendas;***
- ***Creating a Charter for the Executive Committee that includes a framework for evaluation of the Executive Director;***
- ***Removing the provision that Committee members serve at the pleasure of the Board Chairman;***
- ***Establishing procedures for calling a Committee meeting that parallel those for convening a Board meeting;***
- ***Developing position descriptions for Board and Committee officers;***
- ***Creating a Board disciplinary policy;***
- ***Formalizing a process for approving the Board Chairman's educational program attendance and cost reimbursements;***
- ***Including the Board's Self-Assessment process in the Bylaws and using it to identify Trustee training priorities.***

### 2015 Background:

While the Board's Bylaws and Committee Charters were found to be generally consistent with those of peers and to cover most of the topics that are typically included in governance documents, we identified several policy improvements based on leading peer practices that merited consideration by the Board.

Assessment of implementation progress: ***Substantially Implemented***

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PEBA has adopted most of the policy enhancements we recommended. However, it is not clear whether provisions were fully considered and addressed regarding:

- Creating detailed position descriptions for Board and Committee officers;
- Formulating a Board disciplinary policy.

In addition, there are several areas where the new policy provisions could be clarified.

### Opportunities for further improvement:

The Bylaws now include primary duties of the Board Chairman, though they are spread throughout several sections of the Bylaws. The Bylaws and the Committee Charters also identify primary duties of Committee Chairs. These governing documents substantially address the 2015 audit recommendations. However, if it has not already done so, the Board should consider whether development of separate position descriptions that collect all duties and responsibilities of the Board and Committee Chairs in one place would be helpful in training and guiding those officers. Similarly, if Vice Chairs have duties beyond presiding at meetings in absence of the Chairman, a separate position description might also be helpful.

We understand that the Board did consider development of a Board disciplinary policy but decided that it did not have the authority to impose discipline on Board Members, other than informing any appointing authority. While we understand this conclusion, there are examples of public pension fund board disciplinary policies that could be reviewed for guidance. For example, some boards consider public censure, referral to enforcement agencies, suspension of committee memberships or travel privileges and additional training as disciplinary policy remedies. If the Board wishes to reconsider its powers in this regard, we believe that the best time to put a disciplinary policy in place is now, while the Board does not appear to have any issues that might merit deployment of the policy and complicate the decision process.

One additional opportunity for PEBA to provide helpful guidance to Trustees is in regard to the process for handling vendor referrals. Although we did not identify existing problems, Trustees would benefit from a formal policy describing what they should do when approached by potential vendors or when they identify a new vendor that is believed to be highly qualified. PEBA already has a procurement process in place that is well suited to impartially handle the competitive evaluation of vendors, but it is important for public pension funds to document how they ensure that vendors referred by Trustees go through the normal evaluation process and do not receive special treatment.

We also note that it is unclear whether Section V.B of the Bylaws, by specifying that powers to call Board meetings which are set forth elsewhere in the Bylaws also apply to committees, and is intended to extend the power to call special Board meetings granted to any two committee chairmen or the Board Chairman (in Section IV-B-1) to allow any two committee chairmen or the Board Chairman to convene special meetings of any committee. While this is a minor technical interpretation issue, it could easily be clarified.

See also Recommendation 1.8.2 regarding potential improvements in linking the Board self-evaluation process to training plans.

**Recommendation 1.10: The PEBA Board should reconsider creation of Board and committee officer position descriptions, formulation of a Board disciplinary policy and development of a formal vendor referral policy.**

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**1.11: *The Board should periodically engage a consultant to facilitate the Board's self-assessment and improvement process, perhaps on a biennial basis.***

**2015 Background:**

The Board's use of a self-assessment process was a leading practice that had been adopted by only one of its peers in the FAS benchmark survey. The PEBA Board chair annually distributed a self-assessment questionnaire regarding the performance of the PEBA Board. At the same time, the Executive Director was asked to provide formal feedback on the Board's performance. Board members seemed to generally believe this process was effective and should be continued. The process was robust and cited favorably in our interviews.

We suggested consideration of periodic engagement of an outside expert, with the assistance of legal counsel, to assist with the self-assessment process, as a number of other public pension boards have found that to be valuable and typically resulting in more candid responses.

**Assessment of implementation progress: *Implemented***

Working through the General Counsel, the PEBA Board has engaged an outside firm to design and conduct its annual self-assessment process since 2015. The results of the self-assessment seem to indicate that the process works well and trustees have an opportunity to provide a broad range of input.

**Opportunities for further improvement:**

No recommendations at this time.

**1.12: *The Board should proceed with prioritizing enhancement of PEBA's risk identification, risk management and compliance functions. Consideration should be given to the appropriate assignment of Committee oversight responsibilities for this initiative.***

**2015 Background:**

Risk management and compliance functions were not an initial priority for PEBA in its early development. However, PEBA had advisors and consultants that could have assisted with the process. A robust risk management and compliance review could have identified areas where additional expertise was needed. At the time of the 2015 audit, we recommended that the Board assign a committee primary responsibility for oversight of risk and compliance and strengthen the Internal Audit function.

**Assessment of implementation progress: *Implemented***

**Board Oversight by Finance, Administration, Audit and Compliance Committee (FAAC)**

PEBA has made substantial progress in elevating its focus on strategy, performance, risk and compliance. At the Board, responsibility for oversight of risk and compliance has been assigned to the Finance, Administration, Audit and Compliance (FAAC) Committee. Its responsibilities include monitoring PEBA's enterprise risk management and compliance functions. Other Committees monitor Pension and Health Benefits performance. This is prevailing practice.

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The position of Risk Management and Compliance (RMC) Director has been created. The RMC Director is responsible for facilitating the executive team in the design, implementation, monitoring, reporting and management of the ERM framework consistent with the ERM Charter. An Enterprise Risk Management (ERM) Framework has been created. The framework describes high level risk management principles, a risk identification and management process, key risks and risk indicators and reports to the PEBA Executive Team and the FAAC. This is prevailing practice.

### **Executive Oversight**

The RMC Director reports to the FAAC and an internal Executive Risk Oversight Committee (EROC) of the executive team. The latter is a voting committee which has met once. The EROC is reviewing Key Performance Indicators (KPIs) and is modeled after the executive Privacy and Security Committee. It brings structure to the discussion and seems to function well. The Executive Director attends and does not vote but has authority to override. PEBA's executive oversight of risk can be considered a leading practice.

### **Plan Summary Reports**

There are Plan Summary Reports prepared for each Committee of the Board and the full Board:

- Retirement Policy Committee
- Finance, Audit, Administration and Compliance Committee
- Health Care Policy Committee
- Strategic Key Measures (for the full Board)

As noted earlier, PEBA's use of Plan Summary Reports can be considered a leading practice.

### **PEBA's Vital Functions and Vital Signs**

For each vital function, the Plan Summary Reports describe key metrics and, in many cases, actual compared to expected performance with tolerances for variability within certain times/intervals. Plan Summary Reports are also used for new trustee onboarding.

These are the vital signs of the vital functions PEBA performs. The EROC's focus on KPIs is an excellent step in the right direction. Board and executive focus on KPIs can be considered a leading practice.

### **RACI Charts**

For each vital function, the RMC Director worked with the executive team to prepare an initial Responsible, Accountable, Consulted, Informed (RACI) chart. The RACI chart begins to more clearly define performance accountabilities for every major PEBA function. We have taken the liberty of grouping PEBA's vital functions (as outlined in the initial RACI) as shown below:

#### **Stakeholder Relations**

- Government Relations
- Agency wide Communications
- PEBA Board Relations

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### Policy and Funding

- Strategic Planning
- HealthCare
- Retirement

### Operations

- Retirement Operations
- Insurance Operations
- PEBA: Connect

### Operations Support

- Procurement
- Legal
- Human Resources
- Facility Management
- Information Technology
- Finance – Agency Budget
- Business Continuity / Incident Response
- Postal Services

### Independent Reassurance

- Compliance
- Legal
- Risk Management
- Internal Audit

The RACI analysis has helped to identify inter-dependencies and clarify key roles. Since problems usually occur at inter-dependencies, the use of the RACI analysis to clarify cross-functional executive responsibilities and accountabilities can be considered a leading practice (even though the tool has been around for quite some time).

### **Use of Subjective Assessments of Impact, Probability and Velocity**

We had previously recommended impact, probability and velocity be included as part of each risk assessment. However, we continue to have strong concerns about the reliability of **subjective** assessments and now recommend against their use for the following reasons:

1. Risk assessment tools and methods need to be matched to the type of performance and risk. Some risks (i.e., those with established cause-effect relationships supported by large bodies of data) are more amenable to probabilistic data analysis. Others are not. Although impact and likelihood are conventional criteria for risk prioritization, relying on subjective assessments of these attributes alone can result in an inaccurate assessment or prioritization of opportunities and exposures.

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2. Today's risk assessment methods are based on actuarial science (events and probability) as a means to determine risk premia. The modern profession of risk management has its roots in insurance and thus the actuarial approach. Quantitative data analysis has its strengths but it is not without its limitations. The problems, challenges and limits of probabilistic analytical models are well understood and documented e.g., Mandelbrot, Taleb, Fama (e.g., tail events, wild vs. mild randomness, irrationality of markets etc.) Such mathematical precision can instill a false sense of confidence. However, it is not the purpose of this report to rehash those challenges.
3. It is understandable that an actuarial model for risk assessment would be applied outside of the insurance and finance industries even though multi-causal relationships had not been established and detailed loss histories did not exist. It was a well-established framework albeit for a specific set of risks.

Every industry and discipline have their own performance and risk taxonomy and sub-taxonomies. If performance and risks are so different, why is it that the tools used to assess them are often the same? Since other tools are available, why not use them? Tool bias is clearly a factor. Perhaps there is perceived safety in numbers because everyone else does it.

4. Conventionally, impact and likelihood have been used to assess risks regardless of the type of risk. Global reinsurer Swiss Re: states: "Predictions about the likelihood of multi-causal losses actually depend on either sound understanding of cause-and-effect relationships or on a detailed loss-history and the risks of the future have neither of the two."<sup>3</sup>
5. Subjective probabilistic analyses are inevitably biased and may result in the over- or under-estimation of opportunity or exposure.<sup>4</sup> We believe subjective assessments should be avoided while recognizing informed judgment will always be required.
6. A distinguishing characteristic of intelligence is early signal detection and pattern recognition. Intelligence and insight enables faster, more effective adaptive responses and greater agility to seize opportunities and be more resilient to adversity regardless of cause. Thus, a key purpose of any intelligent risk assessment is early signal detection and pattern recognition and understanding the implications. All risk assessment tools have different strengths and weaknesses. None are perfect.
7. Success in an environment characterized by high velocity and non-linear complexity demands situational awareness, fast intelligent adaptive responses, and simultaneous consideration of a range of horizons. Risk tolerance is the acceptability of variation between expected and actual performance and the costs of variation compared to the benefits of improved performance. The risk is that the variability becomes unacceptable. The organization needs to have real options available when its thresholds of acceptable variability are reached. Velocity of onset and speed of response are clearly key factors.

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<sup>3</sup> Porro, Bruno and Schaad, Werner, "The Risk Landscape of the Future," Swiss Re, 2004.

<sup>4</sup> "Choices, Values, and Frames". 1983 Daniel Kahneman, University of British Columbia. Amos Tversky, Stanford University. April 1984 • American Psychologist. Copyright 1984 by the American Psychological Association, Inc. Vol. 39, No. 4, 341-350.



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8. Focusing on key performance indicators necessarily focuses the organization on risk. Are these the right indicators? Are they reliable?

**Overall**

There has been a substantial increase in practical focus by the PEBA Board on strategy, policy, performance and risk. However, the more formalized ERM framework (consistent with ISO (International Organization for Standardization) and COSO (Committee of Sponsoring Organizations of the Treadway Commission)) is still not well understood by the Board or executives and thus not implemented. In our opinion, many organizations have had difficulty implementing the COSO ERM framework and view it as a confusing, academic and cumbersome process. It inadvertently separates risk and performance and tends to treat risks in isolation rather than how they interact. Despite being a prevalent practice in both the public and private sectors, subjective assessments are inevitably biased and unreliable leading to systematic over/under-estimating of exposures. Nonetheless, by adopting the recommendations contained in this report, PEBA's approach to performance and risk should be consistent with both ISO31000 and COSO ERM 2017.

**Opportunities for further improvement:**

**Recommendation 1.12.1: Define risk as the potential for an unacceptable difference between actual and expected performance (the effect) regardless of cause, with an aim to cost effectively reduce unwanted variability in performance.**

**Recommendation 1.12.2: Continue to focus on KPIs and KPIs at risk to ensure that performance and risk remain inseparable and visibility and accountability are clear.**

**Recommendation 1.12.3: Improve support for each Committee by identifying policy implications of KPIs (short, intermediate, long-term) and develop and maintain policy briefs affecting KPIs (issues/context, options available, pros and cons, dissenting opinions, recommendations).**

**Recommendation 1.12.4: Establish/refine ranges of tolerable variability for each KPI for each policy area and overall, e.g., Acceptable, Caution, Unacceptable.**

**Recommendation 1.12.5: Cease using subjective assessments of risk impact, probability, velocity, inherent risk, and residual risk.**

**Recommendation 1.12.6: Use/refine use of board portal to develop and maintain the above information (dynamic, linked and evergreen).**

***1.13: The Board should evaluate mechanisms to improve its two-way communication with stakeholders.***

**2015 Background:**

According to our 2014 benchmarking survey, most peer agencies similar to PEBA did not have a communications policy. However, we did hear comments from several employee and retiree groups that communications with the PEBA Board could be improved as communications are never fixed.

**Assessment of implementation progress: *Implemented***



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PEBA staff and the Executive Director now have a robust plan for communications, with specific staff contacts who maintain good communications with stakeholder groups. With the leadership of the Executive Director and a specific communication structure, the Board has declined frequent interaction with employee and retiree groups, instead relying upon professional staff to interact on a consistent basis with stakeholders. The Communications Department builds on the strategic plan on an annual basis, and staff spends considerable time attending meetings and listening to stakeholders. The processes seem to work well, and they are committed to continuous improvement.

The Executive Director is the appropriate conduit for information flow between stakeholder groups and the Board, and she meets this responsibility well.

The PEBA website function for Board questions from stakeholders is not used well, so perhaps it is not well designed or promoted. It would serve transparency and accessibility for the Board if it had a policy for comments or questions at the Board meetings (See 4.5.2).

### Opportunities for further improvement:

**Recommendation 1.13: The PEBA Board should determine if and how the website function for fielding questions from stakeholders could be more effective.**

## 2. Policy Review and Development

- 2.1: *To provide the most assistance for Board members in understanding and upholding the ethical requirements, the ethics policy should be expanded to provide an additional framework around the ethical standards.***

### 2015 Background:

PEBA Board Members are subject to the State Ethics Act, as well as a supplemental Ethics and Conflicts-of-Interest Policy adopted by the Board that provides additional direction on conflicts of interest. Both provide appropriate standards of conduct guidance. However, some provisions in the supplemental policy seemed ambiguous and in need of clarification. In addition, inclusion of examples within the policy, and during Board fiduciary training, would help Board members better understand the application of the conduct requirements to common situations.

### Assessment of implementation progress: *Implemented*

This recommendation was addressed through improvements to onboarding practices and enhanced Trustee ethics training. Feedback from Trustees during Audit interviews uniformly recognized that enhanced ethics policy training, including presentations by the Ethics Commission, was successful in conveying practical examples and promoting better understanding of the standards of conduct applicable to Board Members.

### Opportunities for further improvement:

No recommendations at this time.

- 2.5: *PEBA should increase the frequency of its enterprise-wide risk assessment. Currently, one is conducted every five years; however, given the significant changes that have occurred in PEBA's leadership, as well as proposed changes, conducting a more frequent risk assessment would help to ensure that new issues or concerns are promptly identified and prioritized for remediation.***

### 2015 Background:

The PEBA Audit Policy called for a comprehensive risk assessment every five years. Comprehensive risk assessments are more commonly conducted every two or three years to ensure more timely identification of risk issues and priorities. Staffing levels needed to be evaluated based on the maturity level of the organization and the heightened level of risk issues being identified by the Board and PEBA's staff.

At the time of the 2015 review, the last comprehensive risk assessment had been completed on July 14, 2010, which predated the merger of SCRS and EIP. As such, the risk assessment applied only to SCRS. Prior to that, SCRS completed a Management Risk Assessment questionnaire issued by the Office of Internal Audit Services division of the State's Budget and Control Board, in May 2009.

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After the merger, PEBA's Internal Audit Department was developing a comprehensive risk assessment for the integrated organization that was based upon the Committee of Sponsoring Organizations of the Treadway Commission (COSO) model.

### Assessment of implementation progress: *Implemented*

Since the 2015 review, PEBA established an Enterprise Risk Management and Compliance (ERMC) function with the responsibility for enterprise risk management (ERM). ERMC now performs the enterprise-wide risk assessment while Internal Audit performs its own enterprise-wide audit risk assessment. The two assessments have different purposes. The ERM field is still evolving. In this section we focus on ERMC's efforts. Please see Recommendations 2.7.1, 2.7.2 and 11.2 for related information and recommendations.

Internal Audit stated that recommendations related to enterprise-wide risk assessment and management were referred to the Director of Enterprise Risk Management and Compliance.<sup>5</sup> It is the role of the Director of Enterprise Risk Management and Compliance (ERMC) to "facilitate the executive team in the design, implementation, monitoring, reporting and management of the Enterprise Risk Management framework in alignment with the Enterprise Risk Management Charter as approved by the PEBA Board."<sup>6</sup> PEBA's internal guidance is formulated in the PEBA Enterprise Risk Management Framework, which is based upon and closely parallels ISO 31000<sup>7</sup>.

In February 2018, the Director of Risk Management and Compliance issued a draft spreadsheet that summarized the Enterprise Risk Assessment conducted in 2018. The document identifies threats (risks), rating characteristics, mitigating controls, residual risk rating, management response and the risk owner. In that document, risks are categorized as Fiduciary, Strategic, Operational and Reputational. Within these categories a few risks are specifically associated with the Retirement or Insurance functions.

According to the PEBA Framework, enterprise risk responses will be determined by PEBA's executive management team. Using a Red, Yellow, and Green risk coding scheme signifying High, Medium, and Low Risk, respectively, management ranked risks according to three characteristics: Likelihood of Incident, Impact of Incident, and Speed of Onset. We note that these characteristics are in prevailing use but the use of Likelihood (or Probability), despite its prevalence, is a lagging practice in our opinion due to its subjective nature and is unreliable and potentially misleading in determining the seriousness of risk.

The Enterprise Risk Assessment identifies seven risks with mitigating controls that are deemed to have high residual risk. In each case, management accepts the residual risk and will continue to monitor.

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<sup>5</sup> We note that Internal Audit maintains a separate audit risk assessment that forms the basis for its audit plan. This is consistent with internal auditing standards.

<sup>6</sup> PEBA Enterprise Risk Management Framework, pg. 2

<sup>7</sup> ISO 31000 - Risk management

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The following table summarizes the draft Enterprise Risk Assessment:

	Threat Area				Total
	Fiduciary	Strategic	Operational	Reputational	
<b>Total Number of Risks</b>	5	13	16	5	<b>39</b>
<b># of High Residual Risks</b>	0	4	3	0	<b>7</b>
<b>Risks Owned by:</b>					
<b>Executive Director</b>	3	6	5	3	<b>17</b>
<b>Government Affairs</b>		1			<b>1</b>
<b>COO</b>		1	8	1	<b>10</b>
<b>General Counsel</b>	2			1	<b>3</b>
<b>Insurance (Health Care Policy)</b>		3			<b>3</b>
<b>CFO</b>		2			<b>2</b>
<b>CRO (ERMC)</b>			3		<b>3</b>

Excluding the three Fiduciary risks, 24, or about 70% of the risks, are owned by the Executive Director and COO. Risk ownership is typically pushed deeper down into an organization to the operating heads that have direct responsibility for, or oversight of, activities to manage each identified risk.

**Opportunities for further improvement:**

**Recommendation 2.5.1:** With the establishment of the ERMC function, the related responsibilities for enterprise-wide risk assessment should be added to the Risk Management Policy.

**Recommendation 2.5.2:** PEBA should assign ownership of risk(s) to the senior staff most directly responsible for performance.

See also Recommendation 1.12.5. (Cease using subjective assessments of risk impact, probability, velocity, inherent risk, and residual risk).

**2.6:** *PEBA should have a formal compensation policy that documents its acknowledgement of its status as a South Carolina State government agency and its compliance with the State's Office of Human Resources policies, job classifications system and pay bands. A simple statement and reference to the State policies to which it adheres would provide transparency of PEBA's compensation policy to its employees and to the public.*

**2015 Background:**

PEBA compensation practices comply with the State's Classified Employee Pay Plan. However, FAS recommended that PEBA consider developing an agency-specific policy to provide guidance, awareness and transparency in its administration of compensation.

**Assessment of implementation progress:** *Implemented*

PEBA adopted a Compensation Policy in June 2015. The Policy reasonably implements the recommendation.

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Opportunities for further improvement:

No recommendations at this time.

**2.7.1: *Internal Audit should continue to develop a comprehensive risk self-assessment tool for PEBA as an integrated organization.***

2015 Background:

The last comprehensive risk assessment had been completed on July 14, 2010, which predated the merger of SCRS and EIP. As such, the risk assessment applied only to SCRS. The risk assessment utilized by the SCRS prior to the merger was a comprehensive internal audit risk self-assessment tool. Prior to that, SCRS completed a Management Risk Assessment questionnaire issued by the Office of Internal Audit Services division of the State's Budget and Control Board, in May 2009.

Internal Audit had not yet expanded the questionnaire into a comprehensive self-assessment tool, which is a generally-used approach for consistently capturing risk information across the organization.

Assessment of implementation progress:

Internal Audit completes (or refreshes) its comprehensive audit risk assessment annually. In keeping with internal auditing standards, the PEBA internal audit plan is risk-based and incorporates the functions of the merged organization. The criteria used to establish the risk rankings are typical and reasonable. Please see related information and discussion at 2.5.

Opportunities for further improvement: **Implemented**

None at this time.

**2.7.2: *The development of a risk management policy (including risk appetite and risk tolerance) should be the responsibility of executive management with input from Internal Audit and other stakeholders.***

2015 Background:

In 2015, PEBA did not have a risk management policy that applied to the integrated organization. In addition, risks were not identified as part of a comprehensive framework and responsibility for specific risks was not assigned to individual executives and managers.

Assessment of implementation progress: **Implemented**

PEBA has developed and adopted an Enterprise Risk Management framework. The framework is conventional and consistent with both ISO31000 and COSO ERM 2017. Risk appetite and tolerance is not defined within the framework. See earlier discussion in 1.12.

Opportunities for further improvement:

**See Recommendation 1.12.4**

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**2.7.3 *An executive should be assigned responsibility and accountability for the assessment and management of specific risks within each business function and overall based on factors such as impact, velocity and vulnerability. Internal Audit and others can support management in their self-assessments but operating management should be held accountable for the results.***

2015 Background:

After the merger, PEBA's Internal Audit Department had been developing a comprehensive risk assessment for the integrated organization that was based upon the Committee of Sponsoring Organizations of the Treadway Commission (COSO) model. However, risk responsibility and ownership was not assigned to executives and managers within each department of PEBA.

Assessment of implementation progress: **Implemented**

Today PEBA executives have been assigned responsibility and accountability for each vital function using the RACI analysis. They should continue to focus on further defining/refining key performance metrics and associated risks.

Additionally, the Executive Risk Oversight Committee (EROC) of the executive team is a voting committee which reviews Key Performance Indicators (KPIs), bringing structure to the discussion.

The Risk Management and Compliance Director, Internal Audit Director, and others independent of operating management should continue to support operating management in their continuing assessment of key performance metrics. Operating management should be accountable for the results. As noted earlier, the use of RACI to more clearly define inter-dependencies, responsibilities and roles can be considered leading practice.

Opportunities for further improvement:

**See Recommendation 2.5.2**

**2.7.4: *The Board should identify the type and magnitude of risks which ought to come to its attention, e.g., financial, legal, operational, organizational, reputational, strategic.***

2015 Background:

At the time of the 2015 audit, PEBA had no risk management policy and, consequently, there were no guidelines for when the management team should bring identified risks to the Board's attention for discussion.

Assessment of implementation progress: **Substantially implemented**

Since 2015, the PEBA Board has made considerable progress in elevating its focus on strategy, policy, performance, risk and compliance. See 1.12 for a description. By discussing key performance indicators and acceptable variability, PEBA is focusing on risk as well. The Board has successfully delegated more authority to the Executive Director. The use of the Plan Summary Reports by the Board can be considered leading practice.

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The Board identified which risks and related performance metrics they want to monitor; however, they have not yet articulated what performance levels should trigger a special review.

*Opportunities for further improvement:*

The PEBA Board should review the KPIs and ask if these are the right KPIs for each vital function performed by PEBA? Are there others? Are the measures reliable?

**Recommendation 2.7.4.1: The PEBA Board and its Committees should continue to refine their focus on the KPIs in each Plan Summary and Strategic Key Measures Reports.**

**Recommendation 2.7.4.2: The Board should approve (refine or develop) thresholds for acceptable, caution or unacceptable differences between actual and expected performance for all KPIs.**

**See Recommendation 1.12.4**

***2.7.5: The Board should require that the presentation of information for all major decisions include a risk assessment including the risk of inaction.***

*2015 Background:*

The PEBA Board did not have a policy or practice requiring a risk assessment and discussion of risk in each major decision that staff brought for consideration and approval.

*Assessment of implementation progress: **Not implemented***

The Board has not made this a requirement. The lack of a risk assessment for each major decision (action or inaction) is a prevalent but lagging practice.

*Opportunities for further improvement:*

**Recommendation 2.7.5: The Board should require that the presentation of information for all major decisions include a risk assessment including the risk of inaction.**

***2.7.6: Internal Audit should focus its audit plans on areas that present the highest inherent risk and which rely most on the effectiveness of controls. Time permitting, Internal Audit should focus its consulting efforts on areas of high inherent risk and low control effectiveness.***

*2015 Background:*

In 2015 Internal Audit utilized a risk-based planning approach for audit planning, but the process did not consider inherent risk or the effectiveness of controls.

*Assessment of implementation progress: **Implemented***

Internal Audit's audit plan, including consulting engagements, generally follows a risk-based five-year plan. Auditable areas are prioritized based upon date of last review, assessed criticality, complexity, and financial materiality, as well as history of any issues. This is a prevailing practice.

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However, it could be sensible for PEBA to expand employer and vendor audits to address identified issues. This could be accomplished through engagement of outside audit firms to cover areas that are beyond the capacity of internal audit resources. Expanded employer audits could cover those and other identified issues for which there is no current audit bandwidth.

### Opportunities for further improvement:

**Recommendation 2.7.6.1: PEBA should consider combining all employer compliance auditing under the oversight of the Internal Audit department.**

**Recommendation 2.7.6.2: Internal Audit should further explore with management and the FAAC the need for employer compliance audit coordination, including the establishment and oversight of a systematic and cyclical approach to employer auditing that also is risk based.**

**Recommendation 2.7.6.3: Internal Audit and the FAAC should make concrete steps toward compliance with IIA Standards that require an independent quality review every five years.**

### ***2.11.1 PEBA should determine whether it needs additional experienced procurement resources to address upcoming requirements.***

#### 2015 Background:

There had been an unfilled procurement position and no single PEBA procurement staff or coordinator. PEBA's staff worked any significant procurement requests through the Executive Director, Legal and the Budget and Control Board's procurement liaison to identify vendors, issue requests for proposals, evaluate bids and execute contracts and monitor the quality of service delivery.

PEBA had encountered challenges in the procurement of certain large contracts relating to pharmaceutical and healthcare provider benefits. PEBA had recently hired an experienced procurement manager; however, it was not clear if there would be adequate staff resources with significant contracting experience to effectively address the five major procurements anticipated over the next two years.

#### Assessment of implementation progress: ***Implemented***

In October 2014, PEBA hired a very experienced Procurement Manager from the state Materials Management Office (MMO) to focus on major PEBA procurements and contracts. She was assigned to report to the Director of Healthcare Policy. She was familiar with the state procurement policies and processes and was able to provide expertise in a series of major contract procurements in the insurance area as well as with the Deferred Compensation program vendors.

In addition, a second experienced procurement manager joined PEBA from MMO in mid-2015, but subsequently returned to work at MMO in early 2019. He had been handling procurement activities for the PEBA:connect project and continues to be on point for PEBA:connect in his new role at MMO.

For a period the Procurement Department under the Director of Healthcare Policy also had a compliance administrator, but that person left and has not been replaced to date. Purchasing does not track compliance on a day-to-day basis, but relies on reports from the Analytics and Health Initiatives Department, which appears to be sufficient.



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For IT-related procurement PEBA has a person within the IT Department who assists in purchasing IT products and services through existing state contracts. The Facilities and Budget Department under the Chief Financial Officer handles administrative procurements, also acquired under existing state contracts.

Although PEBA is atypical in its approach to procurement by having staff with purchasing responsibilities split over three departments, and the major Procurement Department reports to the Director of Healthcare Policy, it appears to function effectively. The PEBA:connect program, which is discussed elsewhere in this report, has already had a lengthy procurement process; the primary RFP has been prepared and was released by the state MMO in August 2019. Although it is not clear that the delays have been the result of under-resourcing at PEBA, the Procurement Department is now again thinly staffed with the departure of two staff.

### Opportunities for further improvement:

**Recommendation 2.11.1: PEBA should consider providing additional depth to the Procurement Department staff to ensure there is adequate capacity to effectively support upcoming major contracts.**

***2.11.2: PEBA should consider revising its procurement process to provide for a post-audit process by Internal Audit, potentially using a questionnaire.***

### 2015 Background:

PEBA was using the Budget and Control Board (BCB) Policies for procurement of services. Services that had unique characteristic (such as unique types of services, technical competency or independence, etc.) utilized the BCB's single source guidelines and requisition procedures. Procurement of certain services, such as external financial audits, were determined and coordinated through the Office of the State Auditor.

Due to challenges and delays PEBA had incurred in some procurements, we recommended process improvements which included a post-audit process rather than a time-consuming review at each step in the process. We consider this approach to be a leading practice, as it streamlines the procurement process without reducing oversight and control.

PEBA's Internal Audit function did not have a formal schedule for evaluating the procurement process. However, Internal Audit had identified this as an item that could be added to the audit schedule.

### Assessment of implementation progress: ***Not implemented***

PEBA has not altered its procurement process. We were told that PEBA is not authorized to change any aspects of the process and must work with the state MMO on all procurements.

In May 2019, the Governor signed into law S530 which changed certain aspects of the procurement code, including increasing purchasing approval limits, new notification provisions, new protest procedures, new provisions for procurement of commercially-available off-the-shelf products, and a new competitive negotiations process which are intended to allow greater latitude in negotiations for major, complex acquisitions. However, while it does attempt to streamline certain aspects of complex procurements, it does not allow for a post-audit process to replace a step-by-step state approval process.

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Opportunities for further improvement:

**Recommendation 2.11.2:** In consideration of the revisions to the State Consolidated Procurement Code as a result of S530, PEBA should assess whether or not the improvements are sufficient to meet its needs and streamline purchasing processes or if it should request relief from state requirements through legislation.

***2.12.1: With most Board members only needing six additional credits after attending the Board's annual retreat, the Board should determine whether the Board members are receiving sufficient training from independent outside sources. If not, the policy should be revised to require additional credits or limit the number of credits from the Board retreat and staff training that can be used to meet training requirements.***

2015 Background:

In 2015, the audit recommended that the Board Education policy be revised to incorporate specific education requirements for each Board member. It was suggested that requirements should be based on a review of whether Board Members are receiving adequate education.

Typically, a Board's policy will require that a certain number of required hours be met with outside education. It is important that Trustees receive some independent training that is separate from sessions developed or overseen by staff. This helps to expose Trustees to new ideas and avoid the potential for "group think."

Assessment of implementation progress: ***Substantially Implemented***

The Board is kept well advised of educational opportunities provided by external associations, and are left to their own choices on attendance. However, there is no required education assessment or feedback and Board members are not required to report and share education with other Board members.

Board members are permitted to count their professional continuing education, regardless of the field (e.g., legal), toward their requirement for PEBA Board education hours. While this is a nice option for those who have professional continuing education requirements, the education policy should be amended to specify that the allowance for CE credits are related to knowledge beneficial to pension board trustees in their fiduciary roles.

Opportunities for further improvement:

Although it is apparent that the Board does embrace education for all Board members and they are held to a standard, there are several refinements in their policy that would benefit the Board:

**Recommendation 2.12.1.1:** Board Members should be required to fill out an education evaluation form following an external educational event and share their feedback with the entire PEBA Board.

**Recommendation 2.12.1.2:** Only professional continuing education that relates to PEBA's responsibilities should be counted toward the PEBA Board education requirement.

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**2.12.2: *The PEBA Trustee Education Policy should specify topics on which training is needed and include mandatory fiduciary training on a periodic basis and could be linked with the self-assessment process.***

2015 Background:

It is prevailing practice for each Board member to be required to review Board ethics and fiduciary governance requirements annually. It is also important that each Board member have the opportunity to fill specific knowledge gaps. It is a leading practice for a fiduciary board to conduct an annual self-assessment, and for that process to also inform annual education requirements.

Assessment of implementation progress: ***Substantially Implemented***

With the exception of required Ethics and SC pension statutes, the Board does not have a process where education is tied to any self-assessment or specific knowledge gap, nor are there specific requirements for education on pension-related issues. The most recent Board self-assessment did ask about the effectiveness of onboarding for new trustees.

Opportunities for further improvement:

**Recommendation 2.12.2: Trustee education should be linked to a skills/knowledge assessment, so that Board members seek out education on specific PEBA-related topics.**

**See also 1.8.**

### 3. Organization Structure

**3.1.1: *PEBA should consider adding the title of Deputy Executive Director to the title of Chief Operating Officer to provide a more streamlined flow of communication between the Executive Director and executive staff, as well as create a succession plan for the Executive Director position.***

#### 2015 Background:

Prior to the reorganization announced in early December 2014, just before the initial fiduciary performance audit was finalized, there were a number of organizational issues the review team identified and discussed with the new Executive Director. Among the issues at that time were:

- Lack of a clear leader of insurance operations
- Lack of a single leader of finance, budgeting and reporting
- Lack of an integrated employer services function
- The need for a capability to support development of new processes and information systems requirements while maintaining current systems and service levels
- Lack of apparent executive development paths for succession planning purposes

The recommendation to create a new Chief Operating Officer position was intended to have a clearly-identified head of day-to-day operations, similar to a Deputy Executive Director, as well as improve succession planning.

#### Assessment of implementation progress: *Substantially implemented*

The reorganization announced in December 2014 created a Chief Operating Officer position with six direct reports: Human Resources; Information Technology; Communications; Customer Service; Employer Services; and, Operational Research and Development. This basic organization model is still in place today and, along with the other organizational changes discussed, appears to address many of the concerns previously identified.

The Director of Healthcare Policy is considered the leader of insurance from a policy and contracting standpoint, and day-to-day insurance operations are managed within the Finance function. Although this dual approach does not result in one clear insurance leader, it does appear to work effectively as the two organizations seem to work well together and understand and accept their respective roles.

Creation of the Chief Financial Officer position identified a clear leader for finance, budgeting and reporting. The Employer Services Department was created and is functioning very well. The Operational Research and Development Department has taken a lead role in defining the requirements for PEBA:connect and implementing ongoing process and system improvements. The PEBA executive leadership team is strong and there is bench strength from a succession planning standpoint.

#### Opportunities for further improvement:

**See Recommendation 3.1.2**

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**3.1.2: *Over the longer term, PEBA should consider creating the position of a leader of retirement programs who would have responsibility for both defined benefit and defined contribution and savings programs.***

2015 Background:

At the time of the 2015 review, there was not a single PEBA executive leadership position overseeing the Retirement program, such as a Retirement Benefits Director, and a separate executive position overseeing the Insurance program, such as an Insurance Program Director. The lack of an insurance leader was the more significant concern. It was also suggested that an Insurance Program Director could lead the development of strategic planning and implementation with the objective of improving the insurance plan over the long term. It was also proposed to have a manager of all the Deferred Compensation (DC) Plans to report directly to the Retirement Benefits Director to ensure the DC plans receive appropriate visibility and attention.

Assessment of implementation progress: ***Substantially implemented***

As mentioned in the assessment of 3.1.1, the Director of Healthcare Policy is considered the leader of insurance from a policy and contracting standpoint, and day-to-day insurance operations are managed within the Finance function, and it does appear to work effectively.

On the retirement side, there is also not a clear leader of the programs. The functions supporting the defined benefits retirement plan are split between the COO and the CFO, and the DC plans report to the CFO. The CFO role is quite broadly defined to include operational responsibilities, which is typically not the case aside from the financial functions.

A CFO's role is typically defined as managing the system's finances, including financial planning, management of financial risks, record-keeping, and financial reporting and analysis. While not the norm, it is not unusual for the CFO to also have responsibility for one or more staff support functions, such as procurement or human resources. However, since the CFO is responsible for reporting on the results of operations, operations do not report to the CFO in order to ensure accountability, objectivity and independence of reporting.

Opportunities for further improvement:

**Recommendation 3.1.2: As the PEBA organization evolves, the Board and senior leadership should determine if efficiency and effectiveness, as well as accountability for performance, could be improved by aligning all retirement-related operations under a leader of retirement, and similarly for insurance, with shared support functions reporting to the COO.**

**3.3: *PEBA should continue to fill remaining vacant positions in order to maintain sufficient staffing in all areas to effectively and efficiently perform all functions.***

2015 Background:

In the 2014 timeframe, PEBA had significant understaffing due to approved positions not being filled, with as many as 24 vacancies at one point. PEBA had begun to remedy this and had filled all but about 12 positions as of the November 2014 timeframe.

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### Assessment of implementation progress: *Implemented*

PEBA appears to have resolved the vacancy rate issues evident in the 2015 assessment. Of a staff of around 262, PEBA maintains a rolling open position rate of around 8-10 at any one time, which is a desirable level. There is a process to review and evaluate every vacancy periodically.

### Opportunities for further improvement:

No recommendations at this time.

### **3.4.1: *Each PEBA business area should develop a specialized staff training and education policy and program for staff in their area.***

#### 2015 Background:

PEBA conducted a workforce planning initiative as an outcome of its 2013 strategic planning process. The process was used to identify gaps in the workforce and succession concerns. As a result of this process, PEBA established and filled many positions to improve depth of professional level staff and identify areas where cross-training could assist in developing pools of more qualified candidates. In addition, several knowledge-sharing initiatives were implemented in a couple of areas.

While there were some useful initiatives to build upon, there had not been a formal training and education program beyond those found in the Call Center and Visitor Intake, and this was viewed as an opportunity where PEBA was building its capabilities for the future.

### Assessment of implementation progress: *Substantially Implemented*

There is now organization-wide required on-boarding for new staff with a set curriculum covering such items as agency policies, relationships between PEBA and RSIC, privacy and security, characteristics of a high-performing workplace, and the opportunity for executive meetings. Cross-training is now more common, and in operational areas staff are rotated among positions to get more exposure. However, job training is left to each department and there do not seem to be written policies or procedures as to how this is institutionalized. HR is not involved in departmental training.

There is no formal feedback process for on-boarding; a structured written process would support continuous improvement and continuing growth of an on-boarding program.

### Opportunities for further improvement:

**Recommendation 3.4.1.1: PEBA should consider systematically seeking employee feedback on effectiveness of onboarding.**

**Recommendation 3.4.1.2: PEBA HR should play a more active role in knowledge-sharing rather than leaving cross-training and development to each department.**

**Recommendation 3.4.1.3: PEBA should acquire and implement a personnel performance management system linked to the strategic and business plans and budgets.**

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**3.4.2: *Human resources should develop a training policy and program that provides for new employee orientation. New Employee Orientation should include a general organizational overview of PEBA's functions and services.***

2015 Background:

At the time of the 2015 review, PEBA did not have a formal policy or program for new employee orientation and onboarding. Prevailing practice is to have a policy for who is responsible for new employee orientation and onboarding and the approach and general content of onboarding.

Assessment of implementation progress: **Implemented**

On-boarding has been implemented and appears to have all the important elements for orienting new employees. However, as noted above, there is not a formal feedback element to support continuous improvement and the different learning styles of new staff. Senior staff appears to be very supportive and happy with those responsible for the onboarding program.

Opportunities for further improvement:

**See Recommendation 3.4.1.1**

**3.5.1: *The staff training and education policy should provide for cross-training and rotation of staff to other, similarly classified positions within the business functions for cross-training purposes.***

2015 Background:

Although PEBA did not have an agency-wide cross-training program at the time of 2015 review, there was a formal cross-training program in two of the largest operational areas – the Call Center and Visitor Intake. Employees in these areas were being cross-trained on insurance and retirement. It was recommended that PEBA continue to build on the existing cross-training program and within an updated policy link cross-training and education in order to:

- Illustrate career path development,
- Enhance succession planning efforts, and
- Protect PEBA from the risk of critical unplanned vacancies.

Assessment of implementation progress: **Substantially Implemented**

The Training and Development Director is consistently noted as doing a great job and should continue; he was complimented by several interviewees. He focuses on on-boarding, privacy and IT security training and the wellness program, to name a few areas but, as noted above, cross-training within departments still is handled at the departmental level. HR has been proactive in managing the staff retirement cliff and supporting the training for staff to prepare for critical retirements. HR tracks all retirement dates within the agency and provides information to departments so that they can develop plans.

There are agency training opportunities that are left unaddressed currently: there are several different cultures within PEBA resulting from the 2012 merger; a change management process or training is lacking; and, the return to work retired employees, who are invaluable to PEBA, create a project risk. These

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employees, however, have been key in bringing back essential knowledge to PEBA in a critical time when PEBA is preparing for a new member benefit system.

There are staffing efficiencies and knowledge-sharing that are missed because in some areas there is internal resistance to combining insurance and retirement functions, or there is resistance to cross-training generally. In other areas, becoming one agency is embraced.

HR tracks that all Position Descriptions are reviewed and updated annually, which is an accepted standard.

Opportunities for further improvement:

**Recommendation 3.5.1: HR should track and promote cross-training and each department should have a documented process; a module on change management could be included.**

***3.5.2: Succession planning should be a higher priority. Executive Staff and managers should maintain organizational charts of each business unit that reflect the time remaining to retirement eligibility of individual staff members and regularly discuss anticipated vacancies and plan for future staffing needs and training. The discussion should also include the possibility of back-filling positions where vacancies are anticipated to provide that the replacement is fully trained when the retiring staff member vacates the position.***

2015 Background:

In 2015, PEBA did not have a policy detailing succession planning, with specific responsibility identified for using and reporting against the policy. The Board should have the opportunity to review and approve the policy in reference to the Executive Director position. For other staff positions, it is common for those with HR responsibility within PEBA to be the keeper of the succession plan, and for Department Heads to implement that plan by department by doing such things as back-filling positions before planned vacancies. Succession planning is a critical component of safeguarding the system in the event of planned or unplanned loss of critical knowledge and experience, so therefore on-going knowledge-transfer is critical.

Assessment of implementation progress: **Implemented**

HR monitors retirement dates and manages this process so that there are no surprises in this area. However, there are numerous key staff that are near or at retirement age and other previously-retired staff with critical knowledge who are running essential pension programs and are important in the development and implementation of PEBA:connect. PEBA has project risk and knowledge transfer risks, and they are well aware of this. As for knowledge-transfer and cross-training, these appear unevenly implemented across the agency because of the deference given department heads on how they would like to approach this issue.

HR is timely in evaluating and filling most vacancies and PEBA has a well-managed vacancy rate. There is an emergency succession plan for the Executive Director, but the staff succession plan is dated and should be made current (we understand this is in process).



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### Opportunities for further improvement:

**Recommendation 3.5.2: PEBA HR should have the responsibility to map critical knowledge in each department, identify key staff who possess that knowledge, and implement department-by-department plans to build cross-training and develop bench strength not only with the retirement risks in mind but also for unplanned and immediate vacancies.**

***3.6.1: As the new technology platform and processes are developed, PEBA should implement additional operational consolidations.***

### 2015 Background:

In 2015, the PEBA organizational structure below the executive management level had only been partially integrated and needed further integration and consolidation of functions. The Employee Insurance Program Finance area remained roughly the same as it was under the previous Employee Insurance Plan (EIP) and had not been fully integrated. Customer service functions were not fully integrated, although there had been continuing efforts to have a single point of contact for customers. The planned new technology platform was expected to facilitate further operational consolidations.

### Assessment of implementation progress: *In-process*

With respect to major IT projects involving redesign of the business operations, an Operational Research and Development Department was created to lead projects that have an enterprise-wide focus. The office is led by a trained project manager and has access to staff that are business process improvement specialists.

PEBA efforts have focused more on intra-department coordination than integration and consolidation. There have been many opportunities for collaboration among the retirement, insurance and administration functions. For example, modification of key input forms is a focus to implement universal changes across the various functions. Another example, the Retirement and Insurance Enrollment Database (RIED), was a discrete project that could be accomplished easily and provide significant benefits.

Staff also reported that the *MoneyPlus* application, which supports the “cafeteria plan” of benefits for State employees, is now “live” and in its first year. PEBA is bringing enrollment for this program in-house and can better control the marketing of the plan.

PEBA staff has informally categorized the “to-be” plan tasks into “big ideas”, i.e., large projects that would require significant resources to develop; “big items” that should be done anyway but not too big; and, the remaining “smaller items.” While the procurement process for PEBA:connect is under way, PEBA is actively exploring how to continue working toward the overall goal.

Development of the system specifications by the outside consultant followed a philosophical focus on the customer experience, but backend integration was also a key component. The “to-be” section of the Operational Assessment also included a proposed modified organization structure.

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Opportunities for further improvement:

**Recommendation 3.6.1.1: PEBA should expedite the procurement process for PEBA:connect to facilitate more operational consolidation and efficiencies and improved member service levels.**

**Recommendation 3.6.1.2: PEBA management should pay close attention to the *MoneyPlus* implementation and make any necessary adjustments based on measurement of the KPIs related to the *MoneyPlus* Plan.**

***3.6.2 The budgeting process for all areas should be more coordinated and collaborative. A formal budget process should be developed and include all department heads in its development. Integration of the budget process will reduce silos and enhance an enterprise approach to administrative functions.***

2015 Background:

The budgeting process did not appear to be linked to an overall business planning process.

Assessment of implementation progress: ***Substantially implemented***

As a newly formed agency, in 2014 the State granted PEBA a not-to-exceed annual budget of \$30 million. At no time since then have annual operating and capital expenditures approached that amount, nor does PEBA anticipate that they would. Additionally, the legislature granted PEBA's request for a \$10 million annual increase for each of five years during which the PEBA:connect system would be implemented. This provision would cover the expected \$50 million cost of the system.

PEBA has been fortunate to have available funds without any significant undue constraints and has been able to accomplish its operational plan since inception of the new agency, with the only significant exception being the delay in procurement of the new system.

However, PEBA is not utilizing its budget process as a management control tool. It does not utilize a rigorous budget development process which is linked to anticipated volume of activity or other performance metrics in each department. As a result, the budget is an underutilized management tool and compliance mechanism for implementation of PEBA's fiduciary duty to incur "only costs that are appropriate and reasonable."

Opportunities for further improvement:

**Recommendation 3.6.2: The CFO should lead development of a new PEBA budgeting process which is linked to the business plan, built up by each department and becomes the basis for departmental reporting of actual versus budgeted spending.**

See also Recommendation 3.4.1.3.

***3.8: Each of PEBA's departments should create and maintain a standard operating procedures manual documenting its process for performing its functions.***

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### 2015 Background:

In 2015, some, but not all, of PEBA's departments had written operating policies and procedures. Leading industry practices include maintaining a standard operating procedures manual describing each department's or unit's procedures for performing its functions. At the time, PEBA's benefits administration procedures were comprehensive and well-documented, but this was not the case in most other functions.

It is anticipated that having consistent written policies and procedures for all functions would be helpful not only with staff training, but also assisting with the internal auditing and review of procedures. Periodic review of written procedures can help to identify gaps and inefficiencies. Written operating procedures manuals could be shared between departments when processes overlap so that each affected unit is aware of the responsibilities of the other unit.

### Assessment of implementation progress: *In-Process*

A number of Standard Operating Procedures Manuals are dated and appear to still be in draft form:

- Average Final Compensation (AFC) – The AFC Draft is 12 years old and consists primarily of screen shots with some narrative instructions.
- Service Purchase – This Manual is dated 2012. It is highly detailed with many narrative explanations, definitions and also includes screen shots with detailed instructions. It appears that many areas need to be updated.

The Operational Research and Development (ORD) department was created in 2014, initially to conduct an operational assessment to identify the needs and requirements for a major new operating platform for PEBA. Although the "as is" processes were reviewed during this operational assessment, the major focus was to develop the "to be" vision for PEBA. As a result, there was not significant development of new procedures documentation development or update of existing procedures.

When PEBA:connect is ultimately implemented, it is anticipated that the system will include online procedures documentation embedded in the workflow. To date, Operational Systems Assessments (similar to Standard Operating Procedures) that document processes have been prepared by ORD and its consultant for:

- Contact Center
- Service Purchase
- Refunds
- Service Retirement
- Customer Intake
- Death Claims
- Disability Retirement

During and after development of the "to be" processes, ORD has worked with various departments to identify and implement improvements to existing processes, where practical, rather than wait until PEBA:connect is fully implemented.

### Opportunities for further improvement:

No recommendations at this time.

## 4. Communications with Stakeholders

### **4.1: *PEBA should develop a comprehensive communications strategy and plan.***

#### 2015 Background:

PEBA had developed a communications matrix which appropriately identified key target audiences and mapped various communications channels and materials into each audience. However, there was not an overall PEBA communications strategy which also includes communications objectives, messages, and metrics; organizational responsibilities; key initiatives; and budget requirements. Leading practice is to develop a strategic communications plan that helps define communications objectives, identify target stakeholder groups, clarify responsibilities, and prioritize improvement efforts.

#### Assessment of implementation progress: *Implemented*

PEBA adopted a Communications Strategic Plan for 2017-2021, developed by the Communications staff, which identifies goals, objectives, strategies, and deliverables; each strategy includes responsible parties and target timing for completion of activities and deliverables. The plan is organized by key stakeholder group. The Communications Strategic Plan is reviewed and adjusted annually, and there is also an annual communications plan with specific goals, objectives and activities. It is planned to develop a new Strategic Communications Plan during fall 2020 for the period 2021-2025.

In late 2016, the Executive Director and Chief Operating Officer approved a 2017-2021 five-year Communications Strategic Plan which included goals, objectives, strategies and deliverables linked to Board stakeholder communications responsibilities. One area of potential concern is there appears to be limited structured feedback from members. There is also lack of a formal plan for engaging with the public.

#### Opportunities for further improvement:

**Recommendation 4.1.1: PEBA Communications Department should ensure that there is a more proactive process for obtaining member feedback.**

**Recommendation 4.1.2: PEBA should include a formal plan for communicating with the public in the Strategic Communications Plan and take advantage of improved relationships with employee and employer associations to author editorial or information pieces for association newsletters.**

### **4.2.1: *PEBA should develop the planned consolidated website as soon as practical to improve integration of and access to all information.***

#### 2015 Background:

After the formation of PEBA in 2012, a new PEBA website was developed which linked to the two old websites of the South Carolina Retirement System and the Employee Insurance Division. The PEBA website included an overview of PEBA and news updates, information concerning the PEBA Board of

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Directors and meetings, a biography of the Executive Director, HIPAA information, and general PEBA contact information. All other information remained on the two original retirement and insurance websites which were available by clicking through the main PEBA home page. An all-new, consolidated PEBA website was under development and planned for launch during the second half of 2015.

### Assessment of implementation progress: *Implemented*

PEBA implemented the new consolidated website, which functions as the public website and is separate from four online account access websites. The four online account access websites are: MyBenefits (insurance) and Member Access (retirement) for members, and Employee Benefits Services (EBS) (insurance) and Electronic Employer Services (EES) (retirement) for participating employers.

PEBA is developing new core operating systems through the purchase of software which will be customized to PEBA's requirements. Named the PEBA:connect project, the new systems are planned to be implemented through a multi-year project. The new system is expected to result in a central log in for employers and for members, enabling them to access information for all the benefits PEBA administers in one location. The new system is also expected to integrate the underlying member data to improve accessibility and reduce redundancy and errors.

### Opportunities for further improvement:

No recommendations at this time.

#### **4.2.2: *The new website should include additional self-service functions to reduce the requirement for submission of paper forms and to provide more member information and tools online.***

### 2015 Background:

The PEBA websites in use at the time of the 2015 review included limited self-service capabilities, such as viewing and updating personal information online. The retirement website included a secure Member Access area, separate from the Retiree Resource Center, where limited other updates could be made online, for example, annuitant payees could change their direct deposit and tax withholding.

However, while many forms were available online, most had to be downloaded, printed, and submitted in hard copy. Leading practice is to allow online form submission from both members and employers. In addition, leading practice member websites have an online benefit calculator, service purchase calculator, and annual member statements available, and members can file for retirement online.

### Assessment of implementation progress: *Implemented*

PEBA implemented the new consolidated website, which functions as the public website and is separate from four online account access websites. The four online account access websites are: MyBenefits (insurance) and Member Access (retirement) for members, and Employee Benefits Services (EBS) (insurance) and Electronic Employer Services (EES) (retirement) for participating employers.

PEBA is developing new core operating systems. Named the PEBA:connect project, the new systems are planned to be implemented over the next four years. The new system is expected to result in a central

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log in for employers and for members, enabling them to access information for all the benefits PEBA administers in one location.

In the interim, before implementation of PEBA:connect is completed, PEBA has made a series of incremental upgrades to the existing website and system to improve member self-service. Among the improvements are linking the pension calculator to actual member salary and service data, maintaining a history of all member communications and transactions, and online enrollment for new hires (being rolled out during summer 2019). In addition, members can now do the following online:

- Initiate a retirement application
- Change beneficiaries for insurance
- Change family status for insurance
- Check status of disability application
- Register for classes
- Upload documents that are linked to a transaction for insurance
- Make elections for the ORP
- Request refunds for retirement

Current plans for additional capabilities with PEBA:connect include:

- Common enrollment for retirement and insurance
- A single, consolidated portal
- The ability to change name
- A direct link to the ORP sites

### Opportunities for further improvement:

No recommendations at this time.

**4.3.1: PEBA should consider mailing newsletters to members with an “opt-out” electronic option for either email delivery or an RSS newsfeed to ensure that all members receive PEBA news on a timely basis.**

### 2015 Background:

At the time of review, PEBA communications vehicles were not offered in various formats to members and retirees from various demographic and age brackets. Because each group tends to have specific communication needs, PEBA should have printed newsletters and information pieces delivered via regular U.S. mail. Any member could opt-out for other communication vehicles but the delivery foundation is printed material for newsletters, brochures and other information pieces.

### Assessment of implementation progress: *Implemented*

PEBA has a Communications Strategic Plan that is updated annually, and within that plan the Communications Department uses various communication vehicles including social media, email, meetings, and information via PEBA web site.

This recommendation has been implemented in a manner that is responsive to stakeholder feedback.

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Opportunities for further improvement:

No recommendations at this time.

**4.3.2: *The PEBA Board should play a more active role in reaching out to employee groups on a regular basis to improve communications.***

2015 Background:

At the time of the 2015 audit, Trustees did not have much interaction with stakeholders. One retiree group expressed a frustration with “lack of a voice with the PEBA Board,” and “a limited role in nominating the PEBA Board member representatives.”

Members and retirees should be provided information on various meetings with stakeholders so that they have the option to attend, interact with other members or retirees, and hear information provided by staff and, importantly, hear the questions and concerns voiced by meeting participants.

Assessment of implementation progress: **Implemented**

PEBA seems to now have staff reaching out to employees and others on a regular basis, meaning that the Trustees need not have the responsibility directly to interact with all the stakeholders. Information regarding staff interaction with stakeholders is communicated to the Board when necessary by the Executive Director.

The PEBA organization structure has a Customer Services Manager who now is responsible for most of the areas where members interface with PEBA, such as the Visitor Center and the Call Center. The Communications Department also has staff who attend all meetings with employees and thereby monitor feedback and communication needs. Although the Board is not typically actively communicating with members and retirees, they have effectively delegated the role to staff and this recommendation is considered implemented.

Opportunities for further improvement:

No recommendations at this time.

**4.5.1: *Consistent with Recommendation 4.3.1, PEBA could consider mailing newsletters to retirees and survivors with an “opt-out” electronic option for either email delivery or an RSS newsfeed to ensure that all retirees receive PEBA news on a timely basis.***

See 4.3.1

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**4.5.2: *The PEBA Board should consider developing a process and protocol for receiving and considering public comments before its meetings.***

2015 Background:

During the 2015 audit, we spoke to a retiree group and heard two comments related to communications: 1) there is no public comment period during Board meetings, which makes it very difficult for retirees to be heard; and 2) the Board also does not meet with its constituents on a regular basis.

We recommended that the PEBA Board have a board meeting comment/public participation policy that is transparent and available to stakeholders. It is usual for Boards to have such a policy that provides for specific and clear procedures such as prior notification and limits on time as well as number of public comments, any of which the Board could waive based on circumstances. The thrust of a Board policy is board meeting planning and management and accessibility.

Assessment of implementation progress: ***Not Implemented***

During interviews with trustees, it did not appear that this recommendation was seriously considered. Trustees were generally not supportive of the concept of a public comment period based upon their experiences with other public boards in South Carolina.

There is currently no mechanism for feedback at Board meetings, and the comment function on the web site is not well used. Generally, however, staff have been more strategic and consistent in reaching out for comments and interacting with stakeholders on behalf of the Board. Stakeholders, such as retirees, state that there has been significant improvement in communications, but would also appreciate the ability to comment in public meetings. The web comment function is not a substitute for open public comments at Board meetings.

Many, if not most, pension boards have a Board policy for public comments at their public meetings. Provisions typically include a time limit for each speaker, advance notice of intent to speak, and/or submission of topics to be addressed.

Opportunities for further improvement:

**Recommendation 4.5.2: The Board should discuss with key stakeholders and consider a policy that provides for public comments at Board meetings, with appropriate provisions to keep commentary focused on relevant issues and an appropriate use of time.**

**4.5.3: *Similar to Recommendation 4.3.2, the PEBA Board should play a more active role in reaching out to retiree groups on a regular basis to improve communications.***

See 4.3.2



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**4.6.1: *PEBA should ensure that its new website has significantly improved functionality for accepting online submission of forms and reports.***

2015 Background:

Administrators at PEBA employer sponsors indicated they would like to receive and send less paper and to be able to communicate and submit forms through the PEBA website. As mentioned earlier, PEBA was developing a new website to replace the older SRCS and EIP website. Online form submission and updating was becoming prevailing practice at the time of the 2015 review.

Assessment of implementation progress: **Implemented**

PEBA implemented the ability to upload documents by employers, as well as a variety of member self-service capabilities as described in the assessment of 4.2.2. For example, the ability to upload marriage licenses and newborn birth certificates for insurance were cited as a huge improvement. As a result, the employers we spoke with reported that the changes in technology made by PEBA over the past few years have been very helpful.

One employer noted a suggestion for website improvement she had made to PEBA was implemented and taken further and resulted in better convenience and usability for members.

Opportunities for further improvement:

**Recommendation 4.6.1: PEBA should ensure that there is adequate employer input during the design stages of PEBA:connect which includes both large and small employers to cover the range of requirements they have.**

**4.6.2: *PEBA communications should review its communications process on legislative changes as they relate to employers and ensure that it results in timely employer updates.***

2015 Background:

During the 2015 audit, several administrators expressed a desire to be updated about legislative changes on a more timely basis. Consistent and timely information flow with employers and employer groups is critical.

Assessment of implementation progress: **Implemented**

The Communications Department is now fully staffed with a total of six after adding two new employees. They have completed a communications audit; have an annual staff planning event guided by a longer range 5-year strategic plan that they update annually; have embraced continuous improvement; and, have invited employers to listening sessions to hear how they can be more helpful in communicating important information.

The Communications Department provides an annual legislative update, but if something is more “of the moment,” an email blast is used to ensure timely communication of important events or legislation.

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Opportunities for further improvement:

**No recommendations at this time.**

**4.6.3: *PEBA should determine whether having an employer advisory group to provide feedback in a structured manner would be beneficial.***

2015 Background:

It was suggested by employer administrators that an employer advisory committee be formed to report problems and health and retirement plans issues. The objective was more timely, open communications.

Assessment of implementation progress: ***Implemented***

A new Manager of Employers Services role was created in 2015. This appears to have significantly improved communication and overall services with employers. The Manager has formed an Employer Advisory Group which is very active and typically meets monthly. PEBA staff from various other departments also often attend the meetings. Benefits noted as a result of the input from the advisory group include improved services through one-on-one counseling in field offices; improved internet options for such things as employer data transfers; and, generally more accessibility for all employers.

We note, however, that there is no formal or routine feedback process from employers beyond the monthly advisory group meetings. A one-time survey was conducted with the employer advisory group two years ago, but no surveys are routine. More routine surveys could be more effective and also include employers who are not participants in the advisory group. The assistance of a professional for survey design would help PEBA, as suggested earlier, could also be helpful in this case.

Opportunities for further improvement:

**Recommendation 4.6.3: Employer Services should consider instituting regular employer surveys to obtain broader and more systematic input from employers.**

**4.8: *As part of its strategic communications strategy and plan (see Recommendation 4.1), PEBA should include initiatives which improve communications with the general public.***

2015 Background:

The 2015 PEBA audit noted that the primary communication vehicle from PEBA to the general public was through the website with its general information, annual reports, plan documents, newsletters, board meeting minutes, and videos. The legal disclosure requirements were also accomplished through the website. The information available on the website was comprehensive and typical for public retirement agencies.

It was suggested to address communications with the general public in the planned PEBA communications matrix, such as new blog or chat approaches with the Executive Director and/or Board members.

Assessment of implementation progress: ***Substantially implemented***

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Although the Communications Department is fully staffed, is disciplined about a strategic approach, and has implemented many improvements (see 4.6.2), the focus appears to be primarily with stakeholders such as employers, employees and the legislature. Both the Executive Director and the Chief Operations Officer focus primarily on these communication areas.

The public comment function on the PEBA website is not well used and is usually used for escalated customer service issues. There are no formal communications plans related to the general public. Instead, PEBA relies on their good relationship with media and the media's initiative to publicize an issue. The positive element is that PEBA is generally viewed as a resource, but there may be missed opportunities if PEBA isn't comfortable taking the lead with developing public messages and being proactive.

Meeting with editorial boards could be very helpful in educating the public in general about issues that are not well understood. For example, there appears to be debate in South Carolina about the benefits of DB vs. DC retirement plans, which could be a very significant issue for PEBA that is not well understood generally by the public. PEBA is also facing potential legislative efforts to exempt certain types of employees from participation in the plan. Both issues offer a great opportunity for a detailed external communication plan.

### Opportunities for further improvement:

**Recommendation 4.8: The PEBA Communications Department should develop the PEBA brand through consistent press releases, letters to the editor, and guest editorials whenever there is an opportunity to do so.**

**4.9: *The General Assembly should eliminate the requirement for PEBA to convene a Retirement and Preretirement Advisory Panel, as it duplicates responsibilities of the PEBA Board and has not been meeting its legislative intent. See also Recommendation 1.5.***

**See Recommendation 1.5**

**4.10: *The General Assembly should include a provision in future legislation that replaces references to the BCB, or its successor, in S.C. Code Ann. §§ 9-1-1310 and 9-4-45 with specific references to the SFAA, in order to more explicitly effectuate transfer of the BCB's co-trustee functions to new State Fiscal Accountability Authority.***

### 2015 Background:

When the Budget and Control Board was eliminated in 2015, the legislative intent was to transfer its co-trustee functions to the newly created State Fiscal Accountability Authority ("SFAA"). However, Act 13 of 2017 subsequently addressed this recommendation by establishing an exclusive co-trustee relationship between RSIC and PEBA, eliminating the SFAA's fiduciary role.

### Assessment of implementation progress: **Implemented**

Section 9-1-1310(A) of the South Carolina Code now states that RSIC and PEBA are co-trustees of the Retirement System and that "notwithstanding any other provision of law, any reference in law to the

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trustee of the assets of the Retirement System must be construed to conform to the co-trusteeship as provided in this subsection.” The legislation adequately dealt with the concerns raised in this Recommendation.

**Opportunities for further improvement:**

No recommendations at this time.

**4.11: *As part of its comprehensive communications strategy and plan (see Recommendation 4.1), PEBA should include initiatives which improve communications with key legislators.***

**2015 Background:**

During the first two years of PEBA’s operation, it appeared there was not a systematic approach to engaging legislators aside from the required reporting and budget approval process. This likely contributed to the failure to gain approval for potential legislative changes recommended by PEBA during 2014. Later in 2014, the new Executive Director began meeting with various legislators regarding future PEBA operating and capital requirements.

An important part of an ED’s responsibility is to engage legislators one-on-one continuously. This identifies the ED as the best source of information on pension issues, identifies the ED and legislative staff to legislative aides, and builds relationships. The ED should continue to develop a robust meeting schedule and information sharing protocol so that on a continuous and ongoing basis the ED and legislative staff are meeting with legislators

**Assessment of implementation progress: *Implemented***

The Executive Director and Legislative Director spend a great deal of time in the legislature and have very positive relationships. The ED is very well respected and trusted, and the legislature views PEBA as a reliable source of information. As a result of the positive relationships, PEBA has received adequate budget support and approvals. PEBA has also received the support requested for the investment required for PEBA:connect.

**Opportunities for further improvement:**

No recommendations at this time.

## 5. Benefit Administration

### **5.1.1: PEBA should continue to maintain internal controls and keep its written policies and procedures current.**

#### 2015 Background:

Our prior review found that PEBA maintains detailed and comprehensive procedures for each of its key benefits functions. The internal controls that PEBA integrated into the procedures demonstrated PEBA's recognition of the elements of the process that are vulnerable to error or fraud. Staffing of the units processing benefits transactions was adequate to perform all benefit functions and controls.

Overall, our 2015 review found no significant deficiencies or exposures.

#### Assessment of implementation progress: *Implemented*

PEBA's Employer Manuals are excellent in providing plan information in a format that presents the functions, controls, rules and statutory information in a concise and reader-friendly manner.

Each year PEBA publishes a comprehensive (the 2019 edition is 218 pages) Benefits Administrator Manual focused on helping employers administer health plan benefits (medical, dental & vision) and navigating the various related systems: Online Enrollment; *MyBenefits*; BA Console; *MoneyPlus*. The Manual also covers many rules and regs, handling various exceptions and situations, COBRA regs, survivor and family issues, disability, claims and appeals, life insurance, accounting and reports that are available to the employer administrator.

Each year PEBA also publishes a comprehensive 84-page Covered Employer Procedures Manual focused on helping employers administer pension and retirement benefits and navigating the available resources, tools and systems, but primarily the Electronic Employer Services (EES) system. Like the employer health manual, the pension manual also covers many rules of the various pension plans, the retirement application process, service purchases, death claims, and how to handle numerous employee situations related to retirement benefits.

In each of these manuals, there are links to forms and resources. For example, the pension benefit manual for employers states:

*PEBA's website, [www.peba.sc.gov/remployers.html](http://www.peba.sc.gov/remployers.html), includes resources and tools for employers. PEBA also provides access to members' account information through its secure Electronic Employer Services (EES) website.*

*The manual also provides the following helpful connections:*

- *Publications - The following publications are available on the PEBA website. • Covered Employer Procedures Manual • Becoming a Participating Employer*

*The following financial and actuarial publications are available on the PEBA website.*

- *Annual Accountability Report • Pension Fund Audit Disclosure • Annual Financial Statements • GASB 67/68 Actuarial Valuation • GASB 68 Audit Report • Comprehensive Annual Financial Report*

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• *Popular Annual Financial Report* • *SCRS Actuarial Valuation* • *PORS Actuarial Valuation* • *South Carolina Retirement Systems Experience Study*

- *Employer Services - PEBA recognizes the importance of the employer relationship and its contribution to the success of the administration of the retirement systems. Employer Services and the Field Services team are committed to supporting our employers. Contact Employer Services at any time to request support or to provide feedback. View the Employer Services retirement benefits support menu [here](#).*
- *Training resources - The Field Services team serves your training needs. This unit also offers member seminars. All upcoming trainings and seminars hosted by PEBA are posted on the PEBA website at [www.peba.sc.gov/events](http://www.peba.sc.gov/events). Registration for the trainings and seminars is available on the website. PEBA's Field Services will be happy to visit your agency to conduct training or member presentations or to attend your benefits fairs. Please contact Field Services for more information.*

The pension manual also provides direct contact names and phone numbers of PEBA representatives to help employers.

These are a few of the many helpful resources contained in the manual.

### Opportunities for further improvement:

No recommendations at this time.

### **5.1.2: PEBA should revise its written benefits administration procedures to reflect changes required by the new administration software which will be implemented as part of the new benefits platform.**

#### 2015 Background:

As mentioned elsewhere in this report, the new pension administration platform which has evolved into the PEBA:connect initiative will replace and integrate most of the existing internal pension and insurance application systems and databases. With that understanding, this recommendation was intended to address the need for new procedures manuals consistent with the new system.

#### Assessment of implementation progress: *In-process*

Due to the scale and complexity of PEBA:connect, it is likely that implementation may not be complete for at least another five years. It is not practical to revise benefits administration procedures now to reflect a new system, and the new system is expected to have online, in-system procedure manuals and help screens. PEBA has taken concrete steps to document the current processes and laid out the 'to-be' processes. The new technology platform is still under development and this recommendation is considered in-process. See also 3.8.

### Opportunities for further improvement:

No recommendations at this time.

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**5.3: PEBA should consider expanding the scope of information provided on annual benefit statements.**

**2015 Background:**

In the 2015 audit, it was noted that PEBA provided Active and Inactive members with an annual benefits statement. Those statements provided information such as total contributions and interest, total service credit and current beneficiary information on record. If the member was a participant in the TERI program, the statement provided the member's monthly deferral amount. If the member made an installment service purchase, the statement reflected the member's year-to-date monthly principal and interest payments and principal balance. PEBA also provided members an annual statement summarizing the member's insurance benefits, including types of coverage, premium amounts and dependents of record.

It was recommended that PEBA consider expanding the scope of information provided on the annual benefits statements to include date of membership and service credit history. This would provide the member an annual opportunity to review his or her service history for accuracy, and to address any discrepancies earlier rather than later. At the time, the member's service record was audited upon the member's retirement. Membership dates and gaps in service history also prompted the member to purchase unclaimed prior and subsequent service.

The report also suggested that annual statements include a projection of death benefits. Members could use this information for estate planning purposes and to inform beneficiaries of benefits that should be claimed from PEBA upon the member's death. Statements could also be designed to reflect certain cautionary or informative indications regarding a member's file, such as "Domestic Relations Order on file" or "no valid beneficiary designation on file." Providing this type of information to members on annual statements would foster more complete documentation in files and clarification of discrepancies in the record sooner rather than later.

**Assessment of implementation progress: *Implemented***

PEBA reports that it made the following changes:

Statement	Change
Member Statement	Standardized footer; added to Member Access
Teacher and Employer Retention Incentive	Standardized footer
Statement of Note	Standardized header and footer
Statement of Benefits	Added new section for Money Plus
Statement of Year-to-Date insurance premium	New – available via UNIX and member Access

**Opportunities for further improvement:**

No recommendations at this time.

## 6. Actuarial Matters

**6.1: *PEBA should determine whether additional assistance from the actuarial team would be beneficial, as identified under Recommendations 6.6, 6.8 and 6.9 below.***

### 2015 Background:

The assessment reviewed the process for establishing economic assumptions for the Retirement System and state and local employee insurance benefit programs. The review also assessed the internal controls for validating the data provided to the actuary by PEBA and the external claims data submitted for health and pharmacy utilization. PEBA utilized its actuary for standard actuarial issues common for pension and health care analysis. The scope and services provided were reasonable and adequate. This recommendation raised the question of “what other potential benefits could PEBA obtain from their pension and health care actuary?”

### Assessment of implementation progress: *Implemented*

PEBA staff and Board have a dynamic and healthy relationship with the actuary. The actuary conducts multiple analyses throughout the year, provides an educational session, and keeps the Board well informed and engaged. The actuary describes the relationship and PEBA programs as a model for their other clients in several respects. This comment applies both to the Insurance and the Retirement programs.

### Opportunities for further improvement:

No recommendations at this time.

**6.2: *PEBA should develop an internal policy that documents its competitive RFP process in future procurements of actuarial services.***

### 2015 Background:

Although PEBA’s actuarial services contract is exempt from the State of South Carolina procurement process, the actuarial contract established in 2011 with GRS was the result of a Request for Proposal (RFP) for actuarial services. This is the prevailing practice in public retirement and insurance benefit plan administration in the U.S. Although it was clear that an RFP process was used, we were unable to identify documentation that PEBA will use that process as a matter of policy.

PEBA should have an internal procurement policy and procedure that includes the procurement of actuarial services. As part of that competitive process, documentation of the entire process from start to finish (contracting) is essential, as is a retention policy for all documentation. Either PEBA did not have a retention policy that includes actuarial services and other documents, or PEBA had not developed one that is consistent with state law covering other similar types of contracts. PEBA should be able to justify the vendor selection with its documentation.

As part of a procurement policy, PEBA did not have standard time frames for the duration of any contracts, any allowable extensions, or a standard for rebidding on a specific cycle such as every five to seven years.



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### Assessment of implementation progress: *Implemented*

Procurement of actuarial services appears to have improved significantly in process management and document retention. Actuarial contract term is 5 years, and GRS just received a 5-year extension to the original contract. Although PEBA is exempt from state procurement for this process, they do follow the state process from the RFP process through document retention. GRS feels the process is clear, fair and open and experiences no deviation from other public procurement processes.

### Opportunities for further improvement:

No recommendations at this time.

**6.4: *The actuary, in conjunction with the PEBA staff and subject to approval by the Board, should develop and recommend all actuarial assumptions for the pension plan and other benefit plans. If the state law placing responsibility for setting the investment return assumption with the Legislature is not changed, there should be a prescribed periodic review process adopted by the State Legislature.***

### 2015 Background:

During a five-year actuarial experience study, it is customary for the actuary to set economic and non-economic assumptions, and to recommend the assumed rate of investment return to the Plan Administrator. These recommendations were sent to the PEBA staff and the Board for their consideration. However, the investment return assumption, by law, was set by the General Assembly.

FAS noted that legislative control over the investment return assumption is highly unusual and inconsistent with the usual processes adopted in other states with similar systems. It is prevailing practice in public retirement and benefit systems in the U.S. for the actuary to develop and recommend the return assumption to the plan administrator, and for the Board of Trustees to approve it.

### Assessment of implementation progress: *Substantially Implemented*

The PEBA Board now has a policy to conduct an actuarial experience study every 4 years, which they have implemented. Most recently, the Board changed the mortality table assumption as a result of an experience study. The Board has also adopted a policy that requires an actuarial audit every 5 years; Segal conducted the recently required actuarial audit for PEBA.

There is no immediate expectation of the recommended legislative change to give the Board, in consultation with its external actuary, the authority to set the assumed rate of return. However, if the actuary does recommend a different rate and the legislature takes no action, the authority to set the assumed rate does default to the Board. The actuary identifies this as less than ideal and inconsistent with other clients' authority, but so far there has been no major problem.

### Opportunities for further improvement:

**Recommendation 6.4: PEBA should seek introduction of legislation that would give the Board the authority to set the assumed rate of return. In the meantime, the ED and Legislative Director should continue to educate the legislature on the importance to transferring this authority to the PEBA Board.**

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**6.5: *PEBA staff should develop procedures, in conjunction with the actuary, to determine when and how to adopt annuity option factor changes.***

2015 Background:

At the time of the 2015 review, the experience study included consideration of changes in mortality, but there was no documented process for when and how PEBA should adopt option factor changes.

A policy should frame the schedule and process for actuarial review of such things as mortality tables or other assumptions that inform changes to annuity factors for beneficiaries and survivors. This provides direct governance for managing assumptions.

Assessment of implementation progress: **Implemented**

PEBA has developed a policy that requires an actuarial review of all factors every four years. GRS has changed some tables as a result of the last actuarial review and feels that the four-year cycle is consistent with a proactive and standard practice. They have no issues about PEBA requirements and find them in keeping with standard and accepted practices. They have a very collaborative and dynamic relationship with PEBA staff and are very positive about the relationship and PEBA policies which in some cases they utilize as a model with other clients.

Opportunities for further improvement:

No recommendations at this time.

**6.6: *PEBA should consider closer engagement between the PEBA Board, staff, actuary, and the RSIC Board and staff in order to better understand how investment return projections under various asset allocation models may impact plan liabilities and costs.***

2015 Background:

In 2015, there was limited interaction and sharing of access to actuarial assumptions and software among PEBA, RSIC and staff. RSIC did not have access to the software and there was limited interaction involving all three parties (PEBA, RSIC and the actuary) in conjunction with modeling for purposes of assisting RSIC understand the long-term impact of investment experience on the funding and cost of the retirement system. It was suggested that adding such interaction could enhance the value of the exercise.

Assessment of implementation progress: **In process**

Although progress has been made, there are still opportunities to improve interaction between PEBA and RSIC regarding the actuarial work required in running a public pension and investments to support benefits. PEBA now has an MOU with RSIC regarding actuarial calculations, and RSIC is developing its analysis to better manage the fund portfolio to support the PEBA liability structure. However, RSIC is developing its own actuarial expertise and has not utilized the actuarial analysis of GRS as a basis for its efforts. As a result, the actuarial analysis presented by PEBA to the General Assembly was different than what RSIC presented. Having a consistent view of the liability structure, shared by PEBA and RSIC, is important to effectively manage the retirement system. There should be one actuarial voice, and a unified and collaborative process.

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Opportunities for further improvement:

**Recommendation 6.6:** PEBA and RSIC should come to an agreement to utilize a consistent set of actuarial assumptions under the guidance of the retirement system actuarial consultant.

**6.7:** *PEBA should adopt a policy of conducting regular independent actuarial audits.*

2015 Background:

PEBA did not routinely conduct actuarial audits as is done in many public retirement systems. Such audits are considered best practice and in some cases are required in state statute. An actuarial audit is a standard practice among many public retirement systems and is commonly done on a regular schedule as part of an enhanced governance structure. This would assure PEBA that setting assumptions and the valuation process are in line with current leading and customary practices. As part of governance of the actuarial process PEBA should include in a written policy the requirement to conduct an independent actuarial audit on some frequency.

Assessment of implementation progress: *Implemented*

PEBA adopted a policy requiring an independent actuarial audit every 5 years, and the first was conducted recently by Segal. There were no issues identified as a result of the actual audit.

Opportunities for further improvement:

No recommendations at this time.

**6.8:** *PEBA should consider having the actuary validate the premium rates once PEBA completes the calculation process.*

2015 Background:

PEBA staff compute premium rates, which is not unusual among large plans, and PEBA has a history of successfully developing its own premium rates. However, at the time of review PEBA did not use the actuary for a validation step as external reassurance that the calculations were appropriate and correct.

Assessment of implementation progress: *Implemented*

PEBA staff develops premium rates side-by-side with the health care actuary during each step of the process. As a result, PEBA argues that functionally there is no need for a sign-off step. The actuary agrees with this assessment and identifies the working relationship as a close and collaborative one. The actuary is very complimentary of PEBA staff in their analytical detail and thoroughness and identify PEBA as a model for other clients.

Although the actuary does not sign off on the final premium rates, this recommendation is considered implemented.

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Opportunities for further improvement:

No recommendations at this time.

**6.9 PEBA should explore additional consulting services for the Health Insurance plans to assist in developing long-term strategies to reduce cost and improve health outcomes.**

2015 Background:

In 2015, the PEBA Board and staff expressed the need to establish a more coherent strategy to address rising health care costs and improve health outcomes. It was felt that Board and staff time and resources could be more efficiently used with a guiding strategy. Given these concerns, we recommended expanding health care consulting arrangements to assist in focusing on developing a more comprehensive strategy, and it was suggested that the health care actuary, or an independent health care consultant, should assist with this effort.

Assessment of implementation progress: **Implemented**

PEBA concluded there was no need to hire a separate health care consultant. With the hiring of the Director of Healthcare Policy, supported by the PEBA third party administrator, there is very active strategy development and planning. PEBA staff describe themselves as “their own thought leader” in health care. The Director of Healthcare Policy discusses strategies consistently with the consulting actuary, often on a daily basis. Under his leadership, PEBA has initiated or is exploring several key initiatives ranging from patient-centered medical home for better outcomes to value-based benefits.

This area appears to be a very active and well-run area with numerous initiatives to address a changing and difficult-to-predict health care environment. Because of PEBA’s innovation and careful cost containment, cost increase trends are extremely low for both medical and pharmaceutical, the lowest among the actuary’s clients.

Opportunities for further improvement:

No recommendations at this time.

## 7. Legal Compliance

**7.2: *In conjunction with outside legal counsel, PEBA legal staff should continue to perform periodic reviews of changes in the law and the plans' compliance with federal and state law requirements.***

### 2015 Background:

In conjunction with outside counsel and other service providers, PEBA legal staff annually reviews plan compliance with federal and state requirements. Given that tax law and other regulatory standards are revised from time to time, it is important that PEBA undertakes diligent processes to identify and respond to developments.

### Assessment of implementation progress: *Implemented*

PEBA appears to have diligent annual compliance review procedures in place and is implementing this recommendation. Outside counsel evaluates compliance and provides written advice on relevant changes and compliance actions.

### Opportunities for further improvement:

No recommendations at this time.

**7.3: *PEBA should review its printed training materials, reports and use of protected health information to make sure its minimum necessary standards are being consistently applied.***

### 2015 Background:

The Health Insurance Portability and Accountability Act ("HIPAA") requires group health plans to comply with its privacy and security requirements in an effort to maintain confidentiality of participants' protected health information ("PHI"). The 2015 audit found that PEBA had implemented appropriate policies and business associate agreements for compliance.

However, during the review, we became aware that some internal PEBA training documents unnecessarily included PHI. PEBA addressed the situation, but we recommended that special attention should be paid to minimizing use and maintaining control of or shredding hard copy documents with PHI.

### Assessment of implementation progress: *Implemented*

Since the last Audit, PEBA conducted an agency wide assessment of compliance with protected information standards under the Health Insurance Portability and Accountability Act (HIPAA) and has developed internal processes to mitigate identified compliance risks.

### Opportunities for further improvement:

No recommendations at this time.

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**7.4.1: *PEBA should provide periodic fiduciary training to staff and Board members through standardized onboarding education, regular updates and use of examples that are targeted to key issues.***

2015 Background:

During the 2015 audit interviews, we learned that some Board members had not completed full training on their fiduciary obligations. We recommended that all Board members receive comprehensive onboarding fiduciary training that included use of relevant discussion examples, with refreshers at least annually.

Assessment of implementation progress: **Implemented**

PEBA has established robust policies and improved its practices regarding Trustee onboarding and training. Board Members are required to attend at least 18 hours of qualifying educational training every two years, which must include at least two hours of fiduciary education on specified topics and at least two hours of ethics education. Comprehensive onboarding of Trustees is provided immediately after a new Trustee joins the Board. Trustees uniformly gave positive reviews of these improved training practices. (See also the findings on implementation of Recommendation 2.1.)

Staff training was also substantially improved since the 2015 audit. A Training and Development Director was hired in 2015, new training modules were developed and a tracking system was put in place.

PEBA appears to have effectively implemented training enhancements that implement the recommendation.

Opportunities for further improvement:

No recommendations at this time.

**7.4.2: *PEBA should formalize a staff training schedule to ensure that consistent ethics and compliance training is conducted.***

2015 Background:

In the 2015 audit, we recommended that a formalized ethics and compliance training program and schedule for staff was needed to ensure all staff was familiar with their obligations.

Assessment of implementation progress: **Implemented**

The recommendation has been implemented. In 2015, PEBA hired a Training and Development Director. New onboarding and ongoing staff training classroom and online programs have been developed that include seven modules on PEBA code of conduct standards. All staff members are required to receive the ethics training and attendance is tracked. (See also the assessment of implementation progress for Recommendation 7.4.1, above.)

Opportunities for further improvement:

No recommendations at this time.

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**7.5: *PEBA should confirm that ORP and Deferred Compensation investment advisers acknowledge their compliance with the SEC ‘pay to play’ regulations and state requirements.***

2015 Background:

Securities and Exchange Commission Rule 206(4)-5 contains a two-year prohibition on (a) a registered investment adviser providing compensated services to a government entity following a political contribution to certain elected officials with authority to appoint officers to that entity; (b) the use of third-party solicitors who are not themselves subject to pay-to-play restrictions on political contributions; and (c) efforts by advisers to solicit political contributions to certain officials associated with a government entity to which the adviser is seeking to provide services. FAS recommended PEBA confirm that investment advisers providing investment services to the ORP and Deferred Compensation programs confirm their compliance with this SEC rule.

Assessment of implementation progress: **Substantially Implemented**

PEBA has evaluated the policies of its current ORP and Deferred Compensation Program investment adviser and determined that the adviser has policies in place requiring compliance with Federal securities laws. That should include Rule 206(4)-5. However, the 2015 recommendation contemplated receipt of compliance certificates explicitly confirming that pay to play restrictions have not been violated. It also sought confirmation from all vendors approved directly by PEBA to provide investment options under the ORP and Deferred Compensation Program. We understand that PEBA is still evaluating compliance options with its investment adviser.

Opportunities for further improvement:

**Recommendation 7.5: PEBA should confirm that ORP and Deferred Compensation investment advisers annually acknowledge their compliance with the SEC ‘pay to play’ regulations and state requirements.**

## 8. Customer Service

**8.4: *PEBA should develop a more standardized approach for performance monitoring and customer satisfaction surveys with common tools, data and reporting.***

**2015 Background:**

At the time of the 2015 review, each area (e.g., Call Center, Visitor Center, Field Service, Customer Claims, Customer Intake) conducted their own customer satisfaction surveys. These surveys appeared to be effective and were used to coach counselors, improve instructor effectiveness, and identify emerging issues.

Although the surveys were effective, each area developed their own survey approach and instruments, there were varying degrees of survey expertise, and the reporting of customer service metrics appeared inconsistent from one area to the next. In consideration of the number of customer surveys being administered, our recommendation was to develop more standardization of survey approach, tools and reporting.

**Assessment of implementation progress: *Implemented***

PEBA brought in an outside consultant to develop a consistent approach to customer satisfaction surveys. With the assistance of the consultant, new surveys were designed for the Visitor Center, Contact Center, and retirement events. The sampling approach has resulted in a 15 percent overall participation rate.

**Opportunities for further improvement:**

No recommendations at this time.

**8.5.1: *PEBA should identify the key areas and metrics for customer service monitoring and develop a comprehensive, integrated customer service monitoring framework which is used to drive its customer surveys and follow-up improvement programs.***

**2015 Background:**

In addition to the customer satisfaction surveys conducted by each area, as mentioned above, PEBA's Communications Department had also previously conducted an annual customer satisfaction survey with a sample of retirees from the prior twelve months using a short paper customer satisfaction survey. At the time of the 2015 review, the Communications Department, working under the direction of a Board member, had developed a significantly expanded survey for 2013. The new survey was administered online with Zipsurvey, although it was also mailed to members 60 years of age and older. The paper copies were keyed into Zipsurvey manually by PEBA staff.

The 2013 survey used different questions targeted for nine different groups among active, retired and inactive employees and employers, for both pensions and insurance, and was much more complex. For several groups there were as many as 26 questions.



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The results of this survey were prepared in nine different reports and distributed to appropriate PEBA staff. However, there was not a plan for following up and it was not clear that the results were being used. We were told that a draft report was being prepared for the Board.

Although the 2013 customer service survey asked a large number of questions, they were not designed to develop any diagnostic information which could assist in identifying and prioritizing operational improvement opportunities. In addition, the survey was not developed as part of a broader customer service monitoring and improvement initiative and consequently suffered from a lack of follow up and efficacy. Due to the extensive nature of this report, as well as the lack of follow up to date, the survey was not been administered again in 2015 and future plans appeared uncertain.

As a result, we recommended developing a comprehensive, integrated customer service monitoring framework which could be used to drive customer surveys and follow-up improvement programs.

### Assessment of implementation progress: *In process*

The Communications Department last conducted a customer satisfaction survey in 2017. The Communications Department is now coordinating with the Customer Service Department to review the Customer Service Department's member satisfaction survey results to glean feedback that the Communications Department can use to improve the services and deliverables for which Communications is responsible.

The PEBA leadership team has recently developed, and is refining, a comprehensive set of operational performance metrics which is begun to monitor through monthly reporting. The areas included in the reporting include budgets and spending, claims, contact center, employer services, legal, retirement and insurance. PEBA has formed a Risk Committee which will regularly review the reports; the committee has met once as of July 2019.

### Opportunities for further improvement:

**Recommendation 8.5.1: PEBA leadership should continue to develop and refine its performance measures, monitor trends over time, and develop links between customer satisfaction reporting and performance monitoring.**

***8.5.2: The PEBA Customer Service Department should establish a small group with expertise in customer service metrics and monitoring, or conversely, utilize an outside specialist firm to assist in developing its customer service monitoring approach and tools.***

### 2015 Background:

At the time of the 2015 review, PEBA staff lacked expertise in identifying the most effective customer service metrics and in designing surveys which could effectively assist staff in developing customer service process improvements. As a result, it was suggested that either an internal capability should be developed or an outside firm should be engaged to access that specific type of expertise.

### Assessment of implementation progress: *Implemented*

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As mentioned in the assessment for 8.4, PEBA engaged a consultant to assist in development of the approach for measuring customer satisfaction and developing surveys. This appears to be effective and the surveys are being conducted regularly.

### Opportunities for further improvement:

No recommendations at this time.

**8.6: *PEBA should re-evaluate its satisfaction surveying process to include single activity surveys for disability, pension inceptions, withdrawals and transfers-out and service credit purchases.***

### 2015 Background:

PEBA had engaged CEM Benchmarking to assess its pension administration cost and service effectiveness. CEM evaluated nine member transactions for surveying service satisfaction. PEBA collects service satisfaction responses in six of the nine activities evaluated, but not as part of a single activity survey in several cases. As a result, it was recommended to revise the member satisfaction survey process to 1) include additional areas; and, 2) utilize a single activity survey process rather than the general annual member satisfaction survey.

### Assessment of implementation progress: **Implemented**

PEBA has developed several new member surveys designed to obtain feedback on the member experience during: 1) the retirement process; 2) a visit to the member intake center; 3) a call to the contact center; and 4) attending a pre-retirement seminar. These surveys are conducted consistently over time and trends are monitored.

The most recent CEM Benchmarking report from 2018 indicated that PEBA now scores above the median of its peer group for satisfaction surveying.

### Opportunities for further improvement:

No recommendations at this time.

**8.7.1: *PEBA should obtain the email addresses of a much higher proportion of its members, particularly retirees, to ensure they receive news electronically.***

### 2015 Background:

PEBA relied heavily upon its website and electronic media as its first line of customer service; while this was appropriate and effective, many members and, especially, retirees, were not reached through electronic channels.

PEBA only had about 150,000 email addresses but over 400,000 active and retired members. It appeared that fewer than half of all PEBA active and retired members regularly received electronic communications, with this likely skewed heavily to retired members. It was not clear how many members did not have regular internet access to the PEBA website. Considering the large proportion of members for whom

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PEBA did not have an email address, PEBA needed to consider alternatives for more effectively reaching this portion of its population.

Assessment of implementation progress: *Substantially implemented*

PEBA has been working to obtain more member email addresses, including collecting email addresses through online enrollment, calls to the Contact Center, visits to the Visitor's Center, encouraging members to provide their addresses in newsletters, and selected member forms. As a result, the percentage of member email addresses on file has increased substantially. For insurance program members, PEBA now has over 223,000 email addresses, or over 70% of all active and retired members. However, the percentage is only 45% for retirement members. For retirement program members, PEBA has about 245,000 email addresses, or about 40% of all active, retired and inactive members; although the rate is almost 60% for active members, it is less than 40% for retirees and only about 20% for inactive members.

We were told that a significant percentage of PEBA members, including active employees, do not have an email address and do not use a computer. The State Employees Association, which also struggles with this issue, is experimenting with text messaging to members under the assumption that most members who do not use a computer would be using a mobile phone with messaging capabilities.

Opportunities for further improvement:

**Recommendation 8.7.1: PEBA should continue its efforts to collect more email addresses from members to enable better digital communications and consider whether any text communication channels could be an improvement for those members who do not use email.**

**8.7.2:: PEBA should consider alternative means of reaching members if they do not use email or the internet.**

2015 Background:

As mentioned above, PEBA did not have email addresses for over half of its members, yet relied heavily on email and the website for communication. This recommendation was intended to identify alternative ways of ensuring member communications are effective for those without email or internet access.

Assessment of implementation progress: *Substantially implemented*

To date PEBA has not attempted to utilize alternative digital channels to reach members without email or a computer to access the website.

Opportunities for further improvement:

**See Recommendation 8.7.1**

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**8.8: *As PEBA develops its new website, it should place a high emphasis on maximizing self-service capabilities for both members and employers.***

2015 Background:

Leading practice was to provide significant online self-service functionality on a public retirement system website as a way to both improve member service and reduce manual workload for system staff. Examples of self-service include online benefit calculator and service purchase calculator; online access to annual statements; filing for retirement online; and, updating member records online.

Assessment of implementation progress: **Implemented**

See assessment for 4.2.2.

Opportunities for further improvement:

No recommendations at this time.

**8.10: *The General Assembly should eliminate the notarization requirement for a member death by amending the appropriate statutes to delete the requirement for a “duly acknowledged” written notification to PEBA.***

2015 Background:

In the 2015 audit, we noted that PEBA was required to have transfer-out applications notarized, which precluded them from being processed online and was inconsistent with CEM data on peer practices. PEBA agreed that the notarization requirement was outdated and not a necessary control.

Assessment of implementation progress: **Implemented**

A number of acknowledgment and notarization requirements were repealed by Act 13 of 2017 to facilitate electronic processing of forms. This fully addressed the FAS recommendation.

Opportunities for further improvement:

No recommendations at this time.

**8.13.1: *PEBA should consider if expanded hours for its call center would result in improved customer service.***

2015 Background:

The 2013 CEM report calculated overall service score for the PEBA call center at 49 out of 100 compared to a peer median of 53. One of the primary differences which caused PEBA to be below the median was more limited hours of operation (42.5 compared to CEM’s standard of 50).

Assessment of implementation progress: **Implemented**

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The Customer Contact Center remains open from 8:30 am until 5:00 pm Monday through Friday. PEBA tested expanded hours for a time, keeping the contact center open until 6:00 pm each evening, but did not find that there was any significant demand at that time of day. The call pattern is that the bulk of calls occur between 9:00 am and 3:00 pm. PEBA reports that members have not requested being able to call at different times of day or on weekends.

During the hours when the contact center is closed, the phone system is set up to advise that the office is closed and provide the hours of operation. A caller is not allowed to leave a message after hours, although that option is available during business hours.

### Opportunities for further improvement:

**Recommendation 8.13.1: PEBA should set the phone system to allow a caller to leave a message after hours and adopt a process for following up on messages when the contact center reopens.**

***8.13.2: PEBA should evaluate new phone and email management systems and consider acquiring newer technologies if they could improve service levels and/or staff productivity levels.***

### 2015 Background:

Other factors which reduced PEBA's service score in the 2013 CEM report included several related to limitations in PEBA's telephone and email management systems: slower email response time (1 day compared to a 4 hour standard); average number of menu layers a caller must negotiate (2 layers versus a standard of 1); and, more limited real-time information available for representatives to reference; no tools to project call volumes.

### Assessment of implementation progress: *Implemented*

PEBA implemented a new call management system in 2016. The new capabilities include the ability to record all calls for training purposes and courtesy callbacks when there are longer wait times. The system is web-based and allows integration with email.

The call outcomes score from the most recent CEM report indicates PEBA is at the median of its peer group for performance. Although this is a slight improvement compared to the 2013 CEM report, PEBA could consider additional improvements in its contact center performance. For example, the average time for a member to reach a knowledgeable person actually increased substantially (244 seconds vs. 163 seconds). Overall, the PEBA CEM call center service score of 61 out of 100 was significantly below the peer median of 70. The biggest gap compared to peers is in the call wait time service score.

### Opportunities for further improvement:

**Recommendation 8.13.2: PEBA should assess how best to improve its contact center performance relative to the peer median since it now has a more up-to-date technology platform; for example through increased staffing, projections of call volumes, or increased training.**

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**8.14: *PEBA should consider whether offering one-on-one counseling sessions at employer sites would result in improved customer service and participation levels.***

2015 Background:

The CEM study reported that PEBA provided one-on-one counseling to 6.6% of its members in 2013, significantly more than the peer average of 3.9%. The service was also freely available to all members, including both scheduled sessions and walk-ins. However, PEBA only offered one-on-one counseling at its Visitor Center in Columbia, while many peer agencies offer sessions in field locations, particularly at employer locations, where over 28% of sessions were held among the peer agencies.

Assessment of implementation progress: **Implemented**

In 2016, the Employer Services team discussed requests for additional counseling services collected during employer benefit fairs and Customer Intake surveys. Comments and feedback indicated that the central location in Columbia could cause transportation difficulties for those outside of the Columbia area and that there was an interest in regional PEBA offices. It was also noted that the interaction with PEBA staff adds a level of confidence for employees, face-to-face meetings are beneficial, and that the PEBA staff are informative and knowledgeable. The Employer Services group concluded that additional assistance for members was needed in the field and preferably from the experts at PEBA.

However, due to the expense of creating regional PEBA offices, Employer Services proposed that PEBA routinely provide additional services at regional and employer-sponsored pre-retirement seminars. The additional services for attendees include counseling sessions with a PEBA representative, the ability to request retirement system benefit estimates, and the ability to request additional information about PEBA retirement and insurance benefits, including the insurance retiree packet.

This additional service by Employer Services is now provided on an as-requested basis and the employers say they are pleased. Employer Services has also considered using video-conferencing as a tool for more personalized training but report that there has been minimal demand for it.

Opportunities for further improvement:

No recommendations at this time.

**8.15: *PEBA should consider increasing the number of retirement presentations it offers in the field to reduce the size of the groups and allow more individual attention.***

2015 Background:

Although the 3.4% of members who attended PEBA retirement field presentation and group counseling sessions in 2013 was less than the peer group average of 5.5%, in consideration of the high participation in one-on-one counseling, 10.0% of PEBA members received retirement education in 2013 compared to 9.4% for the peer group. However, the average group size of 55 members was higher than the peer group average of 37. This may be because PEBA offered less than one-third the number of sessions as compared to the peer average. Four out of five peers also offer webcasts of presentations, while PEBA does not.

Assessment of implementation progress: **Implemented**

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Employer Services chose to focus on providing presentations in the field as requested by employers, as mentioned in the assessment for 8.14. As a result, PEBA appears to be providing informational presentations where they are desired. Some locations for presentations were eliminated due to lack of participants. In the most recent CEM Benchmarking report, the PEBA score for member presentations had improved significantly from 2013.

### Opportunities for further improvement:

No recommendations at this time.

### ***8.16: PEBA should consider adding additional information to member statements to help them better understand their future options.***

#### 2015 Background:

CEM had identified several areas where PEBA did not include information on the pension statement that would be valuable to members: 1) how their pension is inflation protected; and 2) opportunities for the member to increase the value of their pension such as purchasing service credit or the impact of working longer.

Assessment of implementation progress: ***Implemented***

See 5.3

### ***8.17: PEBA should determine if assigning responsibility for monitoring insurance customer service to a single manager in the insurance organization could help focus the reporting and provide helpful input during contract negotiations.***

#### 2015 Background:

In contracts with insurance providers, PEBA had included customer service performance requirements for areas such as timeliness of care or services, member account services, claims processing, call center responsiveness, and written communications. Most contracts required quarterly reporting to PEBA of actual performance against those requirements and also typically had financial penalties for failure to meet the required standard. We did identify examples where penalties were paid for falling below the performance standard.

While the contracts and reports we reviewed indicated that PEBA does consistently include customer service and other performance standards in their contracts, we did not identify any policies which would provide guidelines to the insurance or procurement managers negotiating the contracts as to what minimum performance standards should be. In addition, there did not appear to be a single department or individual responsible for monitoring the performance of the external providers and reporting potential issues to PEBA leadership.

Assessment of implementation progress: ***Implemented***

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PEBA has seven contracts with healthcare providers (state health plan, pharmacy benefit manager, dental, vision, life insurance, disability insurance, and flexible spending program). At the time of the 2015 review, the Healthcare Policy group consisted of three people: the Director of Healthcare Policy, the Director of Procurement, and the Manager of Analytics and Health Initiatives. PEBA lacked the capacity to effectively monitor contractual performance on a day-to-day basis.

The Healthcare Policy group now includes a total of ten staff, including eight in the Healthcare Analytics and Initiatives Department. Among its various duties, this group conducts extensive analysis of claims, enrollment and other performance areas, as well as reviews quarterly reports from each contractor. Whenever anomalies are identified, they work with counterparts in Procurement and Insurance Finance, as appropriate, to address performance issues, rebates, and other vendor concerns. This appears to work very effectively.

### Opportunities for further improvement:

No recommendations at this time.



## 9. Record Keeping and Information Security

### **9.1: *PEBA should continue its efforts to conduct a comprehensive assessment of its operational infrastructure and business processes.***

#### 2015 Background:

Since PEBA's inception in 2012, each of its primary benefit programs had been run within organizational and technology siloes. These organizational, business process workflow and information system siloes created a number of inefficiencies and potential sources for data and information processing errors. Although PEBA's 2015 information technology infrastructure was adequate, the long term sustainability of key systems and applications was considered a high risk. PEBA's underlying technology and computer applications for supporting its Retirement and Health benefit programs had not changed significantly since they were first developed (in some cases over 25 years ago).

From the standpoint of system sustainability, PEBA's primary systems were developed during a period of time that the computer language known as "Natural" was commonly used. However, by 2015, other computer languages had been introduced that offered more functionality and were taught in more colleges and universities.

Consequently, the computer languages used in PEBA's benefit applications were becoming more difficult to support due to the retirement of existing PEBA programming staff as well as the declining number of application developers with this particular skillset in the local market. In addition, the siloed business processes did not take advantage of natural efficiencies of common workflow activities, member data elements and consistent application of internal data and business process controls.

By early 2015, PEBA had recognized this as a major issue and had begun to assemble a team to conduct a comprehensive operational assessment.

#### Assessment of implementation progress: **Implemented**

The first operational assessment was begun in early 2015 and completed in June 2016, led by the Operational Research and Development (ORD) group with assistance from Linea Solutions. During that time, the ORD group comprised about 10 staff.

The operational assessment was conducted in three phases: as-is, to-be, and roadmap. There was little documentation for existing systems, so ORD created new documentation for 20-25 processes. The overall concept for a new, common platform for all member information and retirement and insurance operations was developed. This concept was named PEBA:connect.

Subsequent to the operational assessment, ORD developed an RFP for program management for the PEBA:connect project. The RFP was issued and Linea was selected to oversee PEBA:connect and provide project management. However, a competitor protested and delayed final selection for 10 months, from late 2016 through much of 2017. During the protest period, ORD continued to write requirements and business rules. After the protest was resolved, a contract was completed with Linea in early 2017.

Requirements definition for PEBA:connect has now been completed and incorporated into an RFP, which was completed and released in August 2019.

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### Opportunities for further improvement:

No recommendations at this time.

**9.2: *PEBA should continue to conduct annual network and security vulnerability tests to ensure its networks and other infrastructural processes are working as intended. Greater use should be made of in-house based security monitoring tools to identify and protect its networks from unauthorized access and unintentional disclosure of member data.***

### 2015 Background:

PEBA's record keeping and information security and privacy practices are modeled after the State of South Carolina's Department of Archives as well as the Division of Technology. These policies and procedures have been customized by PEBA to ensure compliance with state requirements and cover the following areas: information security; general record keeping functions; and record retention and electronic records including data, email and electronic signatures.

Third-party administrators are contractually obligated to maintain beneficiary data and records under the same state guidelines as PEBA. In addition, data that is obtained in serving PEBA's employers and beneficiaries is provided to PEBA via secure file transfer procedures. These file transfers are monitored for completeness and accuracy by both electronic edit checks as well as manual balancing procedures within the various business units.

In addition, vendors using PEBA systems are required to use the same access authentication and approval process as PEBA staff; ensuring accountability and appropriateness of access to beneficiary data. Any errors, data access or integrity issues are communicated to the service provider for follow-up and corrective actions.

The most recent Information Security Vulnerability Assessment conducted prior to the 2015 review tested both PEBA's external and internal computer networks. The tests identified a total of eleven (11) different vulnerabilities, including two (2) high, one (1) medium and eight (8) low severity vulnerabilities. The assessment went on to state that the High risk vulnerabilities identified during the assessment were communicated to PEBA's network team who proactively addressed a number of issues noted.

### Assessment of implementation progress: **Implemented**

Since the last review the PEBA, IT staff has increased by 2, from 32 to 34 full-time staff who are responsible for developing and maintaining all PEBA's application systems, network and computer infrastructure and information security. In addition, the department also works with each of the business functions to facilitate information and data transfers with third-party vendors and the State of South Carolina's Division of Technology.

PEBA contracts with Mandiant Security Consulting to perform various tests and assessments of information systems security.

A comprehensive multi-phase security assessment was completed and a report issued in February 2018. The report was prepared by Mandiant Security Consulting. The assessment included Internal Penetration

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Testing (5 High-Risk Findings), Web Applications (No High-Risk Findings), and Wireless Security (No High-Risk Findings).

Mandiant also prepared a Compromise Assessment Report. Mandiant did not identify evidence of compromise on the analyzed live systems and VM snapshots.

Mandiant also prepared a MS Office 365 Security Assessment Report (in Draft). This report identified 7 High-Risk findings.

PEBA tracks the status of the findings using a remediation tracking spreadsheet. The sheet given to FAS for review showed 1 High-Risk finding remains Open.

### Opportunities for further improvement:

No recommendations at this time.

### ***9.3.1: PEBA should address identified business continuity planning deficiencies.***

#### 2015 Background:

At our prior audit, the Business Continuity Plan had not been updated to reflect the current Retirement and Insurance businesses processes that were merged into PEBA. Internal Audit had also noted that PEBA's Business Impact Analysis needed to be updated and additional backup power generation capabilities were required in the event of a power failure.

#### Assessment of implementation progress: **Implemented**

PEBA has a written Business Continuity Plan (BCP) which was prepared on September 9, 2018 and updated on December 17, 2018. The main body of the BCP is 17 pages and also includes 26 pages of supporting appendices. The BCP states that it is to be used by the Business Continuity Management Team (BCMT) in the event of a disaster (event) to return Critical business operations within seven calendar days and Necessary business operations based on priority. As such, the BCP is designed to contain or provide reference to information needed at the time of a business recovery.

The BCP also states: If necessary, departments shall establish separate specific detailed procedures to support this Plan.

The BCP contemplates two operational statuses:

1. Remote Operations only – where the Data Center remains functional but there is no building access.
2. The full BCP – where the Data Center is not functional and the building will be inaccessible for an extended period of time.

Regarding additional power generation capability, PEBA reassessed the need and determined that the Data Center backup capability is adequate. PEBA considered how the organization weathered the past

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three years with Atlantic storms, that the outages it experienced had relatively minor effects on operations, and also its expected reduced needs in the future with more data moving to the cloud.

Refer also to Recommendation 11.5.

**Opportunities for further improvement:**

No recommendations at this time.

**9.3.2: *PEBA should develop and implement a training program for business unit staff in the event the data center recovery plan has to be activated.***

**2015 Background:**

At the time of the 2015 audit, PEBA personnel had not been trained in procedures that would need to be performed in the event that IT needed to activate its data center recovery plan and procedures.

**Assessment of implementation progress: *Implemented***

PEBA has addressed the need for staff training for business continuity. The BCP has several key requirements:

1. Training for personnel and plan testing as outlined below will be coordinated by the BCP Coordinator and led by the BOT and SST Leaders:
  - Conduct annual training and testing of the BCP and evaluate the effectiveness of the Plan and the readiness to execute.
  - Employ standard testing methods, ranging from walk-through and tabletop exercises to more elaborate parallel/full interrupt simulations.
  - Review testing and training results; record lessons learned; perform corrective actions as needed.
  - Testing will be coordinated with the Disaster Recovery Plan.
2. Business owners shall notify the BCP Coordinator as soon as possible of any changes occurring within their areas of the organization (e.g. changes in personnel, processes, resources or vendors) that affect the Plan, so updates may be managed and incorporated timely.

A fifty-page presentation that explains an overview of how the BCP works is available for staff training. Staff are required to review the slides. At the end of the deck, participants are requested to complete a survey on the PEBA website while they are asked questions from the slide deck. In this manner, PEBA can obtain input from staff and also create a record of the input. The slides lay out the various participants in the BCP by name and picture and their roles. These include the Plan Coordinator and the Primary and Secondary team leaders. We confirmed that these requirements are in place and functioning as expected and that PEBA has taken steps to train staff on its Business Continuity Plan.

**Opportunities for further improvement:**

No recommendations at this time.

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**9.4: *PEBA should continue its efforts to address the deferred compensation control procedural deficiencies noted by PEBA's staff. Once the deficiencies have been remediated, Internal Audit should conduct a follow-up compliance audit to determine that the control enhancements address the specific concerns noted.***

**2015 Background:**

In 2015 external control deficiencies were noted in the following areas:

- Timeliness of monitoring activities over outstanding checks in the unclaimed property account,
- The deferral elections per the third-party administrator's website,
- Contribution limits and defaulted loans

Although these were not material in dollar amount to the financial statements or in quantity of errors, PEBA's staff understood the need to reduce sources of potential errors and had been working with its third-party administrators in correcting the problems.

**Assessment of implementation progress: *Implemented***

PEBA's CFO stated that the reported control deficiencies reported by the external auditors in the prior report have been cleared. This was confirmed by PEBA's external audit firm.

**Opportunities for further improvement:**

No recommendations at this time.

## 10. Cost of Operations

**10.1: *PEBA should review its focus on low cost of retirement operations and ensure there is an adequate level of investment in infrastructure to continue to provide a high level of customer service.***

### 2015 Background:

According to the CEM analysis, the PEBA pension administration cost per active and annuitant member in FY2013 was \$35.46 compared to an average peer group cost of \$76.13. PEBA was the lowest cost in the peer group. About two-thirds of the difference was related to lower per employee compensation and facility cost, major projects and IT. It was not due to higher levels of productivity.

The recommendation to increase the level of infrastructure spending was intended to improve employee productivity and customer service.

### Assessment of implementation progress: *In process*

PEBA continues to be comparatively low cost administratively, but has not significantly increased productivity since 2015 based upon the most recent CEM report.

PEBA did complete a major review of its operations and has been pursuing its new benefit operations platform, PEBA:connect. Vacant staff positions have been filled and PEBA has received the support it needs for the development of PEBA:connect. Although PEBA has obtained budget support for implementing PEBA:connect, the procurement process has been delayed and it will still require several years of investment and a major executive team focus on implementation.

### Opportunities for further improvement:

No recommendations at this time.

**10.2: *PEBA should determine if current headcount is adequate in all areas.***

### 2015 Background:

With the exception of Employer Services and Finance and Accounting, PEBA was at or near the median of the peer group for headcount in most departments. However, Employer Services and Finance and Accounting appeared to be staffed at a level less than half the peer median.

### Assessment of implementation progress: *Substantially Implemented*

PEBA continues to be comparatively low cost administratively, but are now fully staffed and with a few exceptions, departments seem to have the tools and people necessary to get the job done well. However, some stakeholders commented on lean staffing and concern that, in some areas, services could be better if more staff were hired, particularly in the health care programs. Some stakeholders also expressed concern that when the “return to work” staff leave, and when others retire who are eligible, services could suffer. This comment is balanced with the attention to timely filling of vacancies and improving services

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significantly with a commitment to continuous improvement. They credit leadership at the top with making a very noticeable difference.

The workforce development plan in some areas is implemented and head count has increased slightly. Employer Services has developed effective outreach, yet stakeholders expressed that Employer Services perhaps needs more staff, and there could be more attention to staff training for knowledge depth. While stakeholders are quite complimentary of staff, staffing levels continue to be a concern.

Based upon the most recent CEM report, PEBA is now staffed comparably to peers in member transactions, and governance and financial control, but significantly lower in member communications staffing (40%), collections and data maintenance (25%), major projects (55%), information technology (40%), and support services and other (65%). In total, PEBA headcount is about one-third less than its peer group.

### Opportunities for further improvement:

No recommendations at this time.

**See Recommendation 3.5.2.**

**See Recommendation 3.6.2.**

***10.4: To achieve PEBA's stated strategies of further integration and improved infrastructure, it should request at least a temporary increase in administrative expenses and professional and consulting fees for several years.***

### 2015 Background:

In 2009, using their propriety methodology, CEM had calculated pension administration costs at PEBA's predecessor organization to be \$49 per active and annuitant member, or 38 percent higher than the 2013 cost of \$35.46. During this period the average cost of PEBA's peer group increased by 0.4 percent annually while PEBA's declined 7.7 percent on average per year.

Additionally, based upon an analysis of South Carolina Retirement System annual financial statements from FY2009 through FY2014, Administrative Expenses and Professional and Consultant Fees declined over 8% since the formation of PEBA in 2012 and 35% since a peak in FY2010.

Although PEBA's apparent focus on cost reduction seemed to have been successful and was admirable, our assessment was that it was not a sustainable cost structure and that increased budgets and investment would be required.

### Assessment of implementation progress: ***Implemented***

PEBA has secured the increased financial support from the General Assembly for PEBA:connect. On the administrative side, PEBA consistently underspends its annual budget yet continues to get the amount it requests year over year. The current budget would support an increase in consulting fees so that, if PEBA wanted, it could hire external expertise to aid in staff and program development.

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Opportunities for further improvement:

No recommendations at this time.

**10.5: *PEBA should increase its budget for health insurance strategy development and planning.***

2015 Background:

Based upon the need at the time of review to receive bids on multiple new insurance contracts over the next few years and the Board's interest in pursuing health insurance innovation, PEBA had a need for more resources, both internal and external, to develop a longer-term health insurance strategy and plan. The creation of the new Healthcare Policy Director position was a good first step in this direction.

Assessment of implementation progress: **Implemented**

The hiring of the Director of Health Insurance Policy addressed this recommendation and he has fully embraced planning and initiative for healthcare. PEBA chose not to engage an independent health care consultant for strategy development and instead relied on a competent internal staff and existing third-party providers. This approach has been successful and the PEBA health care program appears to be innovative and cost effective.

Before the current Director of Healthcare Policy does retire, PEBA should revisit this recommendation and turn its attention to staffing depth and the potential need for a health care consultant.

Opportunities for further improvement:

**Recommendation 10.5: PEBA should ensure it has effective staff succession planning for the health care program.**



## 11. Information Systems Technology

### **11.1: *PEBA should complete its comprehensive assessment of its existing IT infrastructure and business systems.***

#### 2015 Background:

Although PEBA's current information technology infrastructure was adequate, long term sustainability of key systems and applications was considered a high risk. PEBA's underlying technology and computer applications for supporting its Retirement and Health benefit programs had not changed significantly since they were first developed over 25 years ago.

From the standpoint of system sustainability, PEBA's primary systems were developed during a period of time that the computer language known as "Natural" was commonly used. However, since that time, other computer languages have been introduced that offer more functionality and are taught in more colleges and universities.

Consequently, the computer languages used in PEBA's benefit applications was becoming more difficult to support given the retirement of existing PEBA programming staff as well as the declining number of application developers with this particular skillset in the local market.

#### Assessment of implementation progress: **Implemented**

In December 2014 PEBA contracted with Linea Solutions to conduct a comprehensive Operational Assessment (OA). The assessment was completed in June of 2016.

The scope of the assessment included the core line of business processes, financial processes, document management process, and the customer services call center support systems and was divided into three phases, each with a set of deliverables including:

- Phase 1 – Current State (As-Is) Analysis
- Phase 2 – Future (To-Be) Operations
- Phase 3 – Modernization Plan

The main objective of the OA was to develop a plan to address challenges and seize improvement opportunities through the use of modern technology and business process redesign. The OA goals included:

- Integrate PEBA benefit program business processes and systems
- Improve business processes, including enhanced automation and self-service
- Increase operational system flexibility
- Leverage industry best practices through industry experts and mature packaged benefit solutions software
- Deliver a higher quality user interface and ability to meet future participant needs
- Create the overall vision of future PEBA operational information systems and support strategies

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PEBA's project steering committee is a well-represented group, including insurance, retirement, customer service and the employer field services group, and has a good vision for the project. Some data analysis and data cleansing is now under way to prepare for the new system.

### Opportunities for further improvement:

**Recommendation 11.1:** Once the final system vendors are under contract, PEBA should develop a formal communications plan that extends over the five-year development cycle and includes regular meetings of the various third-parties and the management team and tracks the timeline of deliverables and milestones.

**11.2:** *PEBA should increase the frequency of a full enterprise wide risk assessment to ensure that Internal Audit's Plan for the upcoming year reflects the most significant risks to the organization (see also Recommendations 2.5, 2.7.1 and 2.7.2).*

See Recommendation 2.5

**11.3:** *PEBA should continue its efforts to address the IT control procedural deficiencies noted by their external auditors. Once the deficiencies have been remediated, Internal Audit should conduct a follow-up compliance audit to determine that the control enhancements address the specific concerns noted.*

### 2015 Background:

PEBA's external financial auditors include: CliftonAllenLarson LLP(CLA) and Elliott Davis LLC. These firms performed audits of PEBA's financial statements, CAFR and various employee benefit programs. As part of the independent CPA firm's financial audit procedures, CLA only evaluate internal controls over financial reporting and accounts that make up the financial statements.

On an annual basis, observations or concerns relating to the system's financial controls environment are communicated to PEBA's staff and Board. The communication of the observations or concerns are provided to help PEBA's staff and Board improve the internal control environment and do not represent the expression of an opinion on the internal controls.

### Assessment of implementation progress: *Implemented*

PEBA stated that control deficiencies are constantly monitored and that there are currently no control deficiencies within PEBA's span of control. There is an acknowledgement that control deficiencies exist that are outside of PEBA's span of control. PEBA states it will continue to work with those outside entities to remedy control deficiencies.

PEBA's financial statement auditor noted that all reported deficiencies have been cleared and that PEBA has shown remarkable progress in financial controls and the tone at the top is excellent.

### Opportunities for further improvement:

No recommendations at this time.

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**11.4: *After the Operational Systems Assessment is completed, the IT department should lead an effort to develop a long-term IT strategic plan which supports the plan infrastructure direction.***

2015 Background:

As part of PEBA's annual planning process the Information Technology department developed an Information Technology Strategic Plan for 2014. The plan was developed with input from each of PEBA's functional areas and outlined key objectives and quarterly cost estimates. Although the 2014 plan discussed alignment with PEBA's strategic goals, the plan lacked clarity and detail of how it directly aligns to PEBA's overall strategic priorities. In addition, some costs were not fully estimated due to ongoing analyses that were taking place at the time the budget was prepared.

Assessment of implementation progress: **Implemented**

The IT Strategic Plan FY2017-2021 addresses IT's responsibilities and involvement in PEBA:connect: "a massive systems replacement project. The scope of the systems replacement project includes PEBA line of business support systems for the retirement and insurance programs and the electronic document management system. The result of the PEBA:connect project will be an integrated retirement and insurance benefits administration system."

As part of PEBA's overall strategic priorities, IT has aligned its future direction. The related estimated costs are described in the Operational Systems Assessment (OA) and the actual-to-budget comparisons are maintained and monitored by the office of the CFO.

Opportunities for further improvement:

No recommendations at this time.

**11.5: *Further efforts need to be made to move from a data center disaster recovery plan orientation to an enterprise wide business continuity focused plan.***

2015 Background:

In 2015, PEBA had a documented data center recovery plan. Those plans had not been updated to reflect the current Retirement and Insurance businesses processes that had been merged into PEBA since its last review. The Business Impact Analysis noted in Internal Audit's report would be the basis for identifying and prioritizing all significant business processes, systems and logistics necessary to operate an off-site location for an extended period of time. PEBA personnel had not been trained in procedures that would need to be performed in the event that Information Technology needed to activate its data center recovery procedures.

Assessment of implementation progress: **Implemented**

PEBA's most recent Business Continuity Plan (BCP) was prepared on September 9, 2018 and updated on December 17, 2018. The BCP states that it is to be used by the Business Continuity Management Team (BCMT) in the event of a disaster (event) to return Critical business operations within seven calendar days and Necessary business operations based on priority. As such, the BCP is designed to contain or provide reference to information needed at the time of a business recovery.

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The BCP also states: If necessary, departments shall establish separate specific detailed procedures to support this Plan.

The BCP contemplates two operational statuses:

1. Remote Operations only – where the Data Center remains functional but there is no building access.
2. The full BCP – where the Data Center is not functional and the building will be inaccessible for an extended period of time.

PEBA has taken steps to train staff on its Business Continuity Plan (BCP).

A presentation that explains an overview of how the BCP works is available for staff training. Staff are required to review the slides. At the end of the deck, participants are requested to complete a survey on the PEBA website while they are asked questions from the slide deck. In this manner, PEBA can obtain input from staff and also create a record of the input. The slides lay out the various participants in the BCP by name and picture and their roles. These include the Plan Coordinator and the Primary and Secondary team leaders.

The BCP states that its scope is limited to all facilities and operations conducted by Customer Service, Retirement Finance and Insurance Finance.

It makes sense that the BCP would focus on the key customer-centric areas. Most of the remaining areas of PEBA are assigned supporting roles. The Coordinator, Primary Leaders and Secondary Leaders are clearly identified by name in the BCP.

### Opportunities for further improvement:

**Recommendation 11.5: PEBA should ensure that future phases of the Business Continuity Plan incorporate the administrative and support areas of PEBA's operations (e.g., legal, audit, human resources) to ensure against data loss and to provide timely recovery.**

***11.6.1: PEBA should continue to move forward with its plans to conduct a comprehensive IT Operations Assessment to identify common business process, technology and develop a roadmap to develop its next generation of systems to support the strategic direction of the organization.***

**See Recommendation 11.1**

***11.6.2: PEBA should continue to assess potential third-party IT vendors which may be able to provide additional legacy "Natural language" programming support in the event a large number of existing PEBA programming staff retire or leave the organization.***

### 2015 Background:

In 2015, we observed that PEBA's primary systems were originally developed over 25 years ago using a computer language known as "Natural." Consequently, the computer languages used in PEBA's benefit

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applications were becoming more difficult to support given the retirement of existing PEBA programming staff and the declining number of application developers with this programming.

### Assessment of implementation progress: *Implemented*

The Operational Assessment had a specific focus for modernization on “those PEBA legacy systems that reside on the aging Adabas/Natural technology infrastructure.” The plan and roadmap are designed to fully replace the Adabas/Natural technology infrastructure. Once the new PEBA:connect system is fully implemented and the legacy systems replaced, PEBA will no longer be reliant on Adabas/Natural programmers. This transition likely will not be completed until about 2025.

In the meantime, IT has stated that it has sufficient resources available with expertise in the legacy languages provided that the system procurement process proceeds expeditiously.

### Opportunities for further improvement:

No recommendations at this time.

***11.7: PEBA should continue to work closely with the State’s Information Sharing and Analysis Center (SC-ISAC) along with other third-party information technology consulting firms to proactively assess existing and trending threats to information and network security.***

### 2015 Background:

Internal Audit currently relied almost exclusively on external consultants to perform their Information Technology audits. Although outsourcing certain Internal Audit functions is common in this area, the final decisions on risk ranking and remediation efforts are still the responsibility of PEBA’s staff and Board. Having multiple sources of expertise associated with technology, industry and current events is important.

### Assessment of implementation progress: *Implemented*

PEBA is an active participant in the State's Information Sharing and Analysis Center (SC-ISAC). PEBA IT staff shares logs, notifications and alerts with SC-ISAC. PEBA also employs a separate detection system, the CISCO intrusion system, and SPLUNK. SPLUNK generates a management exception report dashboard by analyzing and then visualizing the computer-generated log files of various types. Staff has created various custom reports and alerts are programmed. One example is foreign country source attempts to access the system.

### Opportunities for further improvement:

No recommendations at this time.

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**11.8: *Issues and error correcting processes should be shared across functional business units to ensure that similar errors in one beneficiary system are also being addressed in other similar application systems.***

**2015 Background:**

Retirement and Insurance systems were supported by the Information Technology department to generate reports used to ensure data integrity and the completeness of transaction processing. These systems contain various edit checking activities consisting of: 1) batch processing edit checks and exception reporting; 2) real-time data entry edits that prevent out of bounds data entry or incomplete data entry screens from further processing; or 3) manual balancing and reconciling of system output to other systems or third-party data sources.

As new errors were identified, IT performed a root cause analysis and corrective action report and worked with the business units to recommend changes, add additional error checking logic, and any additional reporting features to ensure similar problems were eliminated.

Once approved for development, a formal process existed to develop, test and track changes to the system. Status reports were discussed during bi-weekly meetings to promote transparency in communication and status.

PEBA's business units and IT representatives met at least every other week to discuss processing or system issues they are encountering. Business units obtained status updates on open IT related projects. These projects usually involved new system functionality, corrective actions, minor enhancements or reporting. However, it was unclear as to how data or processing issues identified by one business unit may impact other similar systems or workflow processes.

**Assessment of implementation progress: *Implemented***

Based on feedback from numerous PEBA staff interviewed, communication between the business units and IT continues to be very good. There are two levels of interaction, i.e., business and technical. At the business level, the Operational Research and Development (ORD) now plays a bigger role in sharing issues that arise.

At the technical level, IT takes the lead. IT staffs people by skill area, not by business domain; for example, a database administrator works across the insurance and retirement business domains. This cross-domain approach ensures that a software patch will be applied across the domains. Likewise, for example, if there is a data quality issue, the solution will be applied across both business domains as applicable. IT management believes that this focus on applying skills across the business domains helps the error detection process. Additionally, user support interfaces are designed to provide opportunity for reporting errors.

Metrics for error reporting are shared in the IT governance/ operations monthly staff meeting which includes senior management.

**Opportunities for further improvement:**

No recommendations at this time.

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**11.9: The Information Technology Department should consider developing a formal IT user satisfaction feedback process.**

2015 Background:

In 2015, some users expressed unmet needs for better functionality of their systems. Leading practice is to have more formalized processes for understanding user satisfaction to better manage the IT function and processes.

Assessment of implementation progress: **Implemented**

A formal 6-question survey was conducted for IT help desk activities and will be completed on a regular basis going forward.

*Help Desk Survey Summary*

Support Desk Service	2019 Satisfaction Rate (Satisfied and Very Satisfied)
Time to resolve issue	86.95%
Support desk technician	85.87%
Support technician willingness to help	86.42%
Support desk ticketing process	66.30%
Overall Satisfaction Rate	81.38%

Regarding the low score on the support desk ticketing process, users comments noted:

- Ticketing process not clearly understood by all staff outside of IT.
- Suggestions to improve the communication process of open tickets and provide the name of the support person responsible for the open ticket.

IT department management has taken steps to resolve the user issues through better training and communication.

Opportunities for further improvement:

No recommendations at this time.

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**11.10: As PEBA completes its Operational Systems Assessment it should consider what, if any, additional methodologies and skills will be required for the Information Technology Department to effectively support a new IT plan.**

**2015 Background:**

PEBA's IT department utilized a comprehensive system development methodology which incorporated formal request forms and approval processes for new projects as well as requests for system enhancements and functionality by the user departments. IT steering committees were used to review requests for approval and for monitoring the progress of all projects in process.

PEBA utilized a project tracking application for maintaining the status of programming projects. Projects were reviewed on a bi-weekly basis with the respective user departments as well as within the IT organization for overall prioritization and resource management.

The recommendation associated with this area was intended to ensure that, as new technologies and systems were planned that PEBA also consider whether are new methodologies or skill sets would be required to support successful implementation and ongoing maintenance.

**Assessment of implementation progress: *Implemented***

The Operational Assessment identified additional methodologies and skills in its recommended Organizational Change Management workstream to effectively implement and support the new IT plan. These included:

- Create a stakeholders and participants Communication Plan
- Communicate and socialize program messages
- Facilitate program benefit awareness and enthusiasm
- Request and incorporate stakeholder design input
- Enable PEBA training staff to execute the new system Training Plan
- Train business area staff and employers
- Train and enable PEBA technical staff to support co-development

**Opportunities for further improvement:**

No recommendations at this time.

**11.11: PEBA should continue its efforts to address its business continuity planning deficiencies.**

**See Recommendations 9.3.1 and 11.5**



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## Appendix 1 – Implementation Priorities

2019 Recommendations	Critical vs Important vs Necessary	Difficult vs Medium vs Easy to Accomplish	Primary Responsibility		
			PEBA Staff	PEBA Board	General Assembly
Recommendation 1.8.1: Absorption of the large volume of information that must be learned by Trustees might be aided by repetition of key points over time in various educational formats, especially for new Trustees.	Important	Medium	X		
Recommendation 1.12.2: Continue to focus on KPIs and KPIs at risk to ensure that performance and risk remain inseparable and visibility and accountability are clear.	Important	Medium	X		
Recommendation 1.12.3: Improve support for each Committee by identifying policy implications of KPIs (short, intermediate, long-term) and develop and maintain policy briefs affecting KPIs (issues/context, options available, pros and cons, dissenting opinions, recommendations).	Important	Medium	X		
Recommendation 1.12.4: Establish/refine ranges of tolerable variability for each KPI for each policy area and overall, e.g., Acceptable, Caution, Unacceptable.	Important	Medium	X		
Recommendation 1.12.5: Cease using <u>subjective</u> assessments of risk impact, probability, velocity, inherent risk, and residual risk.	Important	Medium	X		
Recommendation 1.12.6: Use/refine use of board portal to develop and maintain the above information (dynamic, linked and evergreen).	Important	Medium	X		
Recommendation 2.5.1: With the establishment of the ERM function, the related responsibilities for enterprise-wide risk assessment should be added to the Risk Management Policy.	Important	Medium	X		
Recommendation 2.5.2: PEBA should assign ownership of risk(s) to the senior staff most directly responsible for performance.	Important	Medium	X		
Recommendation 2.7.6.1: PEBA should consider combining all employer compliance auditing under the oversight of the Internal Audit department.	Important	Medium	X		

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			PEBA Staff	PEBA Board	General Assembly
Recommendation 2.11.1: PEBA should consider providing additional depth to the Procurement Department staff to ensure there is adequate capacity to effectively support upcoming major contracts.	Important	Medium	X		
Recommendation 2.11.2: In consideration of the revisions to the State Consolidated Procurement Code as a result of S530, PEBA should assess whether or not the improvements are sufficient to meet its needs and streamline purchasing processes or if it should request relief from state requirements through legislation.	Important	Difficult	X		
Recommendation 3.1.2: As the PEBA organization evolves, the Board and senior leadership should determine if efficiency and effectiveness, as well as accountability for performance, could be improved by aligning all retirement-related operations under a leader of retirement, and similarly for insurance, with shared support functions reporting to the COO.	Important	Medium	X		
Recommendation 3.4.1.1: PEBA should consider systematically seeking employee feedback on effectiveness of onboarding.	Important	Medium	X		
Recommendation 3.4.1.2: PEBA HR should play a more active role in knowledge-sharing rather than leaving cross-training and development to each department.	Important	Medium	X		
Recommendation 3.4.1.3: PEBA should acquire and implement a personnel performance management system linked to the strategic and business plans and budgets.	Important	Difficult	X		
Recommendation 3.5.1: HR should track and promote cross-training and each department should have a documented process; a module on change management could be included.	Important	Medium	X		
Recommendation 3.5.2: PEBA HR should have the responsibility to map critical knowledge in each department, identify key staff who possess that knowledge, and	Important	Medium	X		

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			PEBA Staff	PEBA Board	General Assembly
implement department-by-department plans to build cross-training and develop bench strength not only with the retirement risks in mind but also for unplanned and immediate vacancies.					
Recommendation 3.6.1.1: PEBA should expedite the procurement process for PEBA:connect to facilitate more operational consolidation and efficiencies and improved member service levels.	Important	Difficult	X		
Recommendation 3.6.1.2: PEBA management should pay close attention to the <i>MoneyPlus</i> implementation and make any necessary adjustments based on measurement of the KPIs related to the <i>MoneyPlus</i> Plan.	Necessary	Medium	X		
Recommendation 3.6.2: The CFO should lead development of a new PEBA budgeting process which is linked to the business plan, built up by each department and becomes the basis for departmental reporting of actual versus budgeted spending.	Critical	Difficult	X		
Recommendation 4.1.1: PEBA Communications Department should ensure that there is a more proactive process for obtaining member feedback.	Important	Medium	X		
Recommendation 4.1.2: PEBA should include a formal plan for communicating with the public in the Strategic Communications Plan and take advantage of improved relationships with employee and employer associations to author editorial or information pieces for association newsletters.	Important	Medium	X		
Recommendation 4.6.1: PEBA should ensure that there is adequate employer input during the design stages of PEBA:connect which includes both large and small employers to cover the range of requirements they have.	Important	Medium	X		
Recommendation 4.6.3: Employer Services should consider instituting regular	Important	Medium	X		

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			PEBA Staff	PEBA Board	General Assembly
employer surveys to obtain broader and more systematic input from employers.					
Recommendation 4.8: The PEBA Communications Department should develop the PEBA brand through consistent press releases, letters to the editor, and guest editorials whenever there is an opportunity to do so.	Important	Medium	X		
Recommendation 7.5: PEBA should confirm that ORP and Deferred Compensation investment advisers acknowledge their compliance with the SEC 'pay to play' regulations and state requirements.	Necessary	Medium	X		
Recommendation 8.5.1: PEBA leadership should continue to develop and refine its performance measures, monitor trends over time, and develop links between customer satisfaction reporting and performance monitoring.	Important	Medium	X		
Recommendation 8.7.1: PEBA should continue its efforts to collect more email addresses from members to enable better digital communications and consider whether any text communication channels could be an improvement for those members who do not use email.	Important	Medium	X		
Recommendation 8.13.1: PEBA should set the phone system to allow a caller to leave a message after hours and adopt a process for following up on messages when the contact center reopens.	Necessary	Easy	X		
Recommendation 8.13.2: PEBA should assess how best to improve its contact center performance relative to the peer median since it now has a more up-to-date technology platform; for example through increased staffing, projections of call volumes, or increased training.	Important	Medium	X		
Recommendation 10.5: PEBA should ensure it has effective succession planning for the health care program.	Important	Medium	X		

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			PEBA Staff	PEBA Board	General Assembly
Recommendation 11.1: Once the final system vendors are under contract PEBA should develop a formal communications plan that extends over the five-year development cycle and includes regular meetings of the various third-parties and the management team and tracks the timeline of deliverables and milestones.	Important	Medium	X		
Recommendation 11.5: PEBA should ensure that subsequent revisions of the Business Continuity Plan incorporate the administrative and support areas of PEBA's operations (e.g., legal, audit, human resources) to ensure against data loss and to provide timely recovery.	Important	Medium	X		
Recommendation 1.6.1: PEBA and participant groups should consider identifying Trustee characteristics and skill sets needed on the Board and informally transmit any suggestions to appointing authorities.	Important	Medium		X	
Recommendation 1.8.2: Greater attention should be devoted to implementation of the new Board Bylaws provision on training needs that are identified during the Board self-assessment process being addressed through additional educational offerings.	Important	Easy		X	
Recommendation 1.9.1: To further improve its Decision Intelligence, PEBA should: <ul style="list-style-type: none"> <li>Organize all Board and Committee agendas according to Powers Reserved <ul style="list-style-type: none"> <li>Set strategic direction and policy</li> <li>Approve certain key decisions</li> <li>Conduct selected activities</li> <li>Oversee delegated authority</li> </ul> </li> <li>Align all executive reports and support directly with the Powers Reserved exclusively for the Board and its Committees</li> <li>Link continuing Board member education to the future key decisions required and the ability to effectively oversee delegated authority.</li> </ul>	Important	Medium		X	

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			PEBA Staff	PEBA Board	General Assembly
Recommendation 1.10: The PEBA Board should reconsider creation of Board and committee officer position descriptions, formulation of a Board disciplinary policy and development of a formal vendor referral policy.	Important	Medium		X	
Recommendation 1.12.1: Define risk as the potential for an unacceptable difference between actual and expected performance (the effect) regardless of cause, with an aim to cost effectively reduce unwanted variability in performance.	Important	Medium		X	
Recommendation 1.13: The PEBA Board should determine if and how the website function for fielding questions from stakeholders could be more effective.	Important	Medium		X	
Recommendation 2.7.4.1: The PEBA Board and its Committees should continue to refine their focus on the KPIs in each Plan Summary and Strategic Key Measures Reports.	Important	Medium		X	
Recommendation 2.7.4.2: The Board should approve (refine or develop) thresholds for acceptable, caution or unacceptable differences between actual and expected performance for all KPIs.	Important	Medium		X	
Recommendation 2.7.5: The Board should require that the presentation of information for all major decisions include a risk assessment including the risk of inaction.	Important	Medium		X	
Recommendation 2.7.6.2: Internal Audit should further explore with management and the FAAC the need for employer compliance audit coordination, including the establishment and oversight of a systematic and cyclical approach to employer auditing that also is risk based.	Important	Medium		X	
Recommendation 2.7.6.3: Internal Audit and the FAAC should make concrete steps toward compliance with IIA Standards that require an independent quality review every five years.	Important	Medium		X	

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			PEBA Staff	PEBA Board	General Assembly
Recommendation 2.12.1.1: Board Members should be required to fill out an education evaluation form following an external education event and share their feedback with the entire PEBA Board.	Necessary	Easy		X	
Recommendation 2.12.1.2: Only professional continuing education that relates to PEBA's responsibilities should be counted toward the PEBA Board education requirement.	Necessary	Easy		X	
Recommendation 2.12.2: Trustee education should be linked to a skills/knowledge assessment, so that Board members seek out education on specific PEBA-related topics.	Important	Medium		X	
Recommendation 4.5.2: The Board should discuss with key stakeholders and consider a policy that provides for public comments at Board meetings, with appropriate provisions to keep commentary focused on relevant issues and an appropriate use of time.	Important	Medium		X	
Recommendation 6.6: PEBA and RSIC should come to an agreement to utilize a consistent set of actuarial assumptions under the guidance of the retirement system actuarial consultant.	Critical	Medium		X	
Recommendation 1.2.1: The General Assembly should give the PEBA Board of Trustees greater authority for budget and headcount decisions, subject to appropriate reporting and oversight, in order to ensure that PEBA's authority is consistent with peers and allows it to meet the strict fiduciary standards to which it is bound.	Important	Difficult			X
Recommendation 1.3.2: The General Assembly should transfer final authority for approval of Deferred Compensation investment options from the State Treasurer to the PEBA Board of Trustees.	Necessary	Difficult			X

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			PEBA Staff	PEBA Board	General Assembly
Recommendation 1.4: Unless addressed through broader defined contribution program changes, the General Assembly should allow PEBA greater flexibility to reduce the number of ORP vendors in order to obtain lower fees and make other improvements without materially affecting program quality.	Critical	Difficult			X
Recommendation 1.5: The General Assembly should eliminate the requirement for a Retirement and Pre-Retirement Advisory Panel, in the context of PEBA's creation and an improved PEBA Board communications and engagement plan that covers a broad range of stakeholder groups.	Important	Difficult			X
Recommendation 1.6.2: The General Assembly should consider revising the PEBA trustee qualifications to allow broader areas of relevant experience that expands the pool of candidates.	Important	Difficult			X
Recommendation 6.4: PEBA should seek introduction of legislation that would give the Board the authority to set the assumed rate of return. In the meantime, the ED and Legislative Director should continue to educate the legislature on the importance to transferring this authority to the PEBA Board.	Important	Difficult			X